

Commonwealth of Pennsylvania

# *Comprehensive Annual Financial Report*

*For the Fiscal Year Ended June 30, 2014*

Tom Corbett  
Governor

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# *Commonwealth of Pennsylvania*

## Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2014

*Tom Corbett, Governor*



Prepared By:

*Charles B. Zogby, Secretary*  
Office of the Budget

*Peter J. Tartline, Executive Deputy Secretary*  
Office of the Budget

*Anna Maria Kiehl, CPA*  
Chief Accounting Officer

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**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014**

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COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

CHARLES B. ZOGBY  
SECRETARY  
OFFICE OF THE BUDGET

December 19, 2014

To the Honorable Governor, Lieutenant Governor, Members of the General Assembly, and Citizens of the Commonwealth of Pennsylvania:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2014. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements, pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

The Basic Financial Statements were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects and that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net position/fund balances. All disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget, Office of Comptroller Operations. The Commonwealth relies on its comprehensive framework of internal control in the preparation of basic financial statements. The Commonwealth has established a cost-effective system of internal controls that is however, subject to inherent limitations. As is in any system of internal controls, there is reasonable, but not absolute, assurance as to the effectiveness of the internal control system.

The Commonwealth's June 30, 2014 Basic Financial Statements have been jointly audited by the Department of the Auditor General and KPMG LLP, an independent public accounting firm. The independent auditors' unmodified opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information that is included in the Basic Financial Statements.

Management's Discussion and Analysis (MD&A), which precedes the June 30, 2014 Basic Financial Statements, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the basic financial statements. This section immediately follows the auditors' opinion. In addition to the MD&A and Basic Financial Statements, this CAFR includes: budgetary comparison schedules; combining fund financial statements; other supporting schedules; narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as reported over the last ten fiscal years.

#### PROFILE OF THE GOVERNMENT

Pennsylvania, also known as the Keystone State, is one of only four Commonwealths in the United States. Pennsylvania earns the title of Commonwealth as a result of its organization by the common consent of the people during colonial times.

The Commonwealth of Pennsylvania provides a wide range of services to enhance the quality of life for its 12.8 million citizens. The Commonwealth divides these essential services into seven broad program categories, consisting of direction and supportive services, protection of persons and property, health and human services, public education, economic development, transportation, and recreation and cultural enrichment. This programmatic approach enables Pennsylvania to effectively serve its citizens.

The Commonwealth of Pennsylvania, aside from the defined primary state government, is also accountable for a number of legally-separate component unit organizations. The major discretely presented component units in Pennsylvania include the Pennsylvania Turnpike Commission, the Pennsylvania Housing Finance Agency, the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Infrastructure Investment Authority, and the State System of Higher Education. Although the Commonwealth does not directly control or operate these component unit organizations, it is still accountable for them, and therefore includes them in the Commonwealth's financial reporting entity and reports them separately within its government-wide financial statements. The Commonwealth of Pennsylvania also accounts for two additional component unit organizations, the Commonwealth Financing Authority and the Philadelphia Regional Port Authority. These organizations function as an integral part of the Commonwealth's primary government, therefore, their financial information is "blended" into the Commonwealth's primary government financial information.

Pennsylvania government has three distinct branches: the legislative branch, the judicial branch, and the executive branch. The legislative branch, comprised of the Senate and House of Representatives, develops and passes the Commonwealth's laws. The judicial branch, made up of the Pennsylvania Supreme Court as well as other specialized courts, serves the Commonwealth by interpreting the laws put in place by the legislative branch. The executive branch, consisting of the elected Governor, Auditor General, Attorney General, State Treasurer, and other appointed entities, works to enforce the laws established by the legislative branch. With these three branches of the Pennsylvania state government, an effective system of checks and balances is created. The Commonwealth's principal leadership and organization charts at June 30, 2014 are incorporated immediately following this letter.

## **GENERAL FUND**

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2014. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other special funds, and reflects a significant portion of Commonwealth expenditures. Tax revenues, principally personal and corporate income, and sales and use taxes, constitute approximately 91 percent of the non-Federal General Fund budgetary basis revenues.

## **BUDGET ADOPTION AND LEGAL COMPLIANCE BUDGETARY COMPARISON SCHEDULE**

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) immediately following the Notes to the Financial Statements. The legally adopted budget provides statutory control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriations. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2014.

## **BUDGETARY BASIS FUND BALANCE INCREASE/(DECREASE) FIVE MOST RECENT FISCAL YEARS**

The following table shows the General Fund's year-end unreserved/undesignated balance and increases or decreases on a budgetary basis at the end of the five most recent fiscal years (amounts in millions):



**General Fund-Budgetary Basis  
Unreserved/Undesignated Balance  
Increase/(Decrease) Last Five Fiscal Years at June 30**

<u>Fiscal Year</u>	<u>Balance/(Deficit)</u>	<u>Increase/(Decrease)</u>
2014	\$ 81	\$ (466)
2013 (revised)	547	(126)
2012 (revised)	673	(420)
2011 (revised)	1,093	1,387
2010 (revised)	(294)	1,732

During the fiscal year ended June 30, 2014, General Fund total expenditures and other uses exceeded General Fund revenues, other sources, and a prior year surplus, at June 30, 2014, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) in the General Fund. The budgetary basis results for the fiscal year ended June 30, 2014 include revenue collections totaling \$51,377, less appropriation authorizations totaling \$52,270, plus other net financing sources totaling \$427. Included in the \$52,270 appropriation authorizations are \$173 of state supplemental appropriations and \$219 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2014 (amounts in millions).

### **ECONOMIC CONDITION**

Pennsylvania benefits from a highly diversified economy with a mix of industries, and no one single employment sector dominates. Since the turbulent diversification of the Pennsylvania economy during the 1970's and 1980's, Pennsylvania has a much more stable economy which tends to track the national economy but with less volatility. During periods of national economic contraction, Pennsylvania often will outperform the U.S. in areas such as growth in real gross state product, real personal income and employment. Pennsylvania's unemployment rate generally trends below the U.S. rate, and per capita income levels in the Commonwealth exceed national levels. However, during periods of economic expansion, Pennsylvania will often lag behind the rate of growth in the national economy.

Because of the diversification of its economy, Pennsylvania's unemployment rate has traditionally trended at or below the national average. At its peak during the Great Recession, Pennsylvania's unemployment rate rose to 9.3% in July 2010 and the national unemployment rate topped out at 10.1% in October 2010. Since that time, Pennsylvania's unemployment rate has been declining, and is expected to steadily improve during 2014 and 2015, as indicated by a reduction to a six-year low rate of 5.4% in October 2014.

Pennsylvania's economy is expected to add jobs at a 1.3 percent average annual rate between 2013 and 2018. Pennsylvania will benefit from the continued development of the Marcellus shale natural gas deposit which will provide jobs in the mining industry. The state may also attract jobs in industries that can benefit from the increase in natural gas supplies, either for low-cost energy or for inputs into chemical products.

In addition, the construction sector will provide a boost to overall employment over the next five years, especially from 2014 on as the housing recovery hits full stride. The construction sector will also benefit from renewed growth in natural gas drilling in response to moderately higher prices. Further aiding the construction industry, the November 2013 passage of the Pennsylvania transportation funding plan will result in an additional annual investment of \$2.3 billion for the Commonwealth's roads, bridges, transit and multimodal transportation systems by its fifth year of implementation. This investment will create approximately 50,000 new jobs in construction and related fields.

### **LONG TERM FINANCIAL PLANNING**

Each year, the Governor's Executive Budget includes estimates of total revenues, available balances carried forward and expenditures for all Commonwealth funds for one budget year and four subsequent fiscal years. These multi-year projections illustrate expected revenue and spending changes, which inform the state's policy makers about the status of the Commonwealth's budget. Based on the enacted budget for the 2014-2015 fiscal year, the Commonwealth expects to

receive General Fund revenues and transfers of \$29,036 million and to spend \$29,026 million from the Commonwealth's General Fund. The following chart presents a five year summary of projected revenue and expenditures for the General Fund.

**GENERAL FUND**  
(Amounts in thousands)

	Enacted Budget 2014-15	2015-16	2016-17	2017-18	2018-19
Beginning Balance.....	\$ 80,631	\$ 7,189	\$ 14,548	\$ 15,050	\$ 20,043
Revenues.....	30,180,555	31,563,300	32,415,800	33,533,700	34,674,100
Adjustments.....	<u>(1,225,000)</u>	<u>(1,355,000)</u>	<u>(1,410,000)</u>	<u>(1,465,000)</u>	<u>(1,500,000)</u>
Funds Available.....	29,036,186	30,215,489	31,020,348	32,083,750	33,194,143
Total State Expenditure.....	<u>(29,026,601)</u>	<u>(30,196,092)</u>	<u>(31,000,281)</u>	<u>(32,057,026)</u>	<u>(33,162,767)</u>
Preliminary Balance.....	9,585	19,397	20,067	26,724	31,376
Less transfer to Budget Stabilization Reserve Fund	<u>(2,396)</u>	<u>(4,849)</u>	<u>(5,017)</u>	<u>(6,681)</u>	<u>(7,844)</u>
Ending Balance.....	<u>\$ 7,189</u>	<u>\$ 14,548</u>	<u>\$ 15,050</u>	<u>\$ 20,043</u>	<u>\$ 23,532</u>

**CERTIFICATE OF ACHIEVEMENT**

The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its CAFR as of and for the fiscal year ended June 30, 2013. This represents the twenty-eighth consecutive year the Commonwealth of Pennsylvania has received this award.

To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized CAFR, which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe the CAFR of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2014 conforms to the GFOA's award criteria.

**ACKNOWLEDGMENTS**

We wish to express our appreciation to the staff of the Office of the Budget, Office of Comptroller Operations and Commonwealth agencies whose time and dedicated effort made this report possible and, at the same time, to reaffirm our commitment to you to maintain the highest standards of accountability in financial reporting to the citizens of the Commonwealth.

Sincerely,



Charles B. Zogby  
Secretary  
Office of the Budget

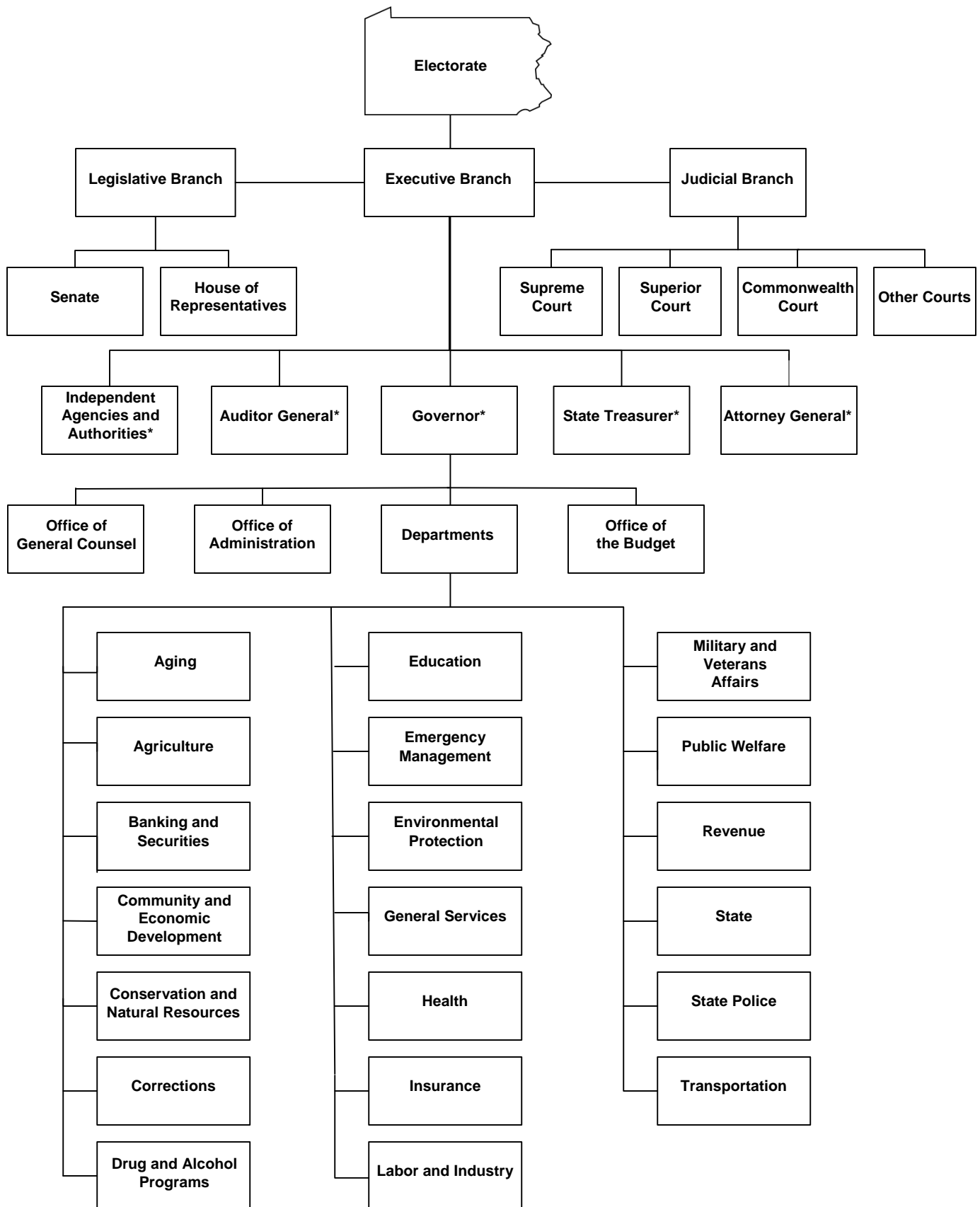


Peter J. Tartline  
Executive Deputy Secretary  
Office of the Budget



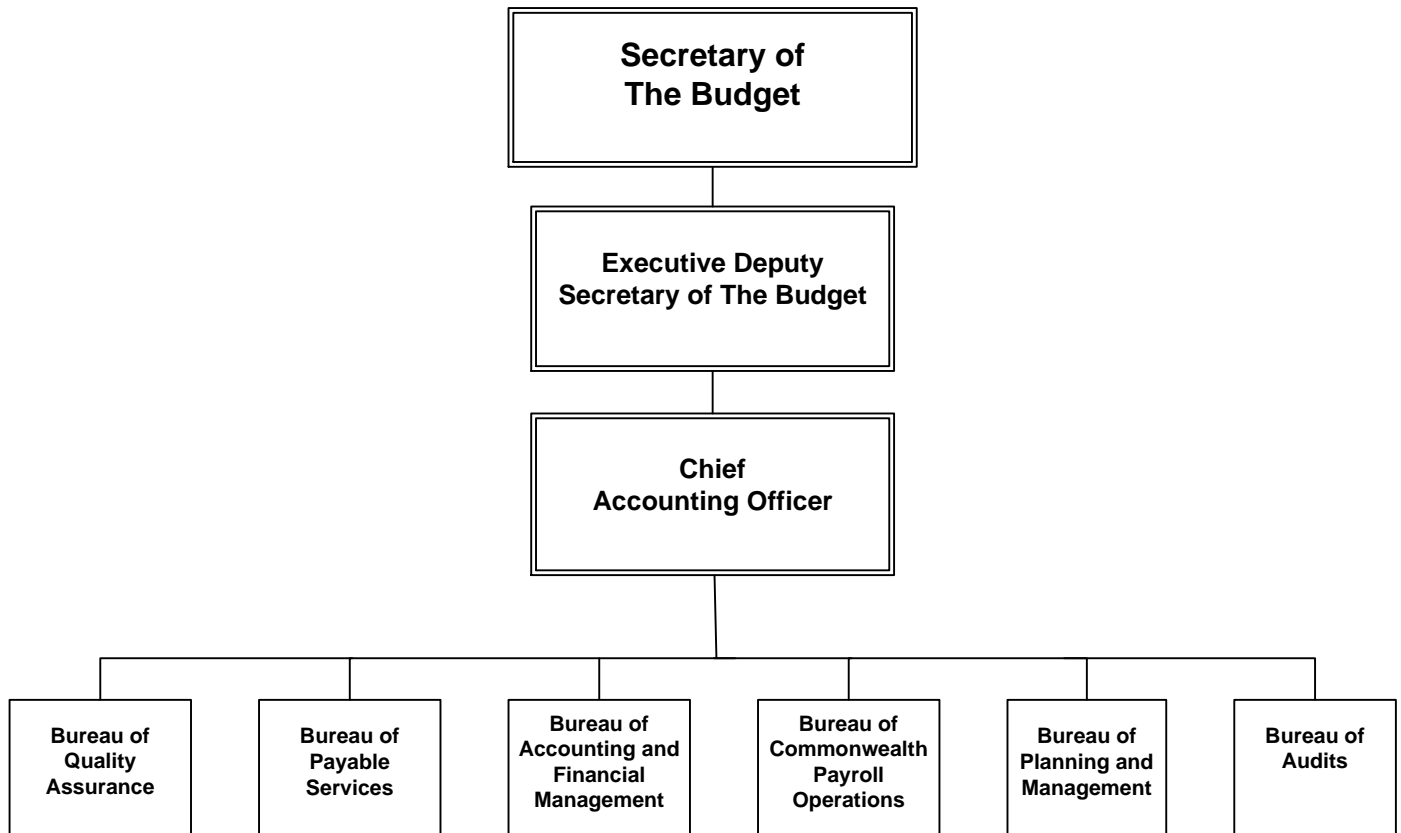
Anna Maria Kiehl, CPA  
Chief Accounting Officer  
Office of the Budget

# COMMONWEALTH OF PENNSYLVANIA ORGANIZATION CHART JUNE 30, 2014



\*Independently Elected or Appointed

**Office of the Budget -  
Office of  
Comptroller Operations  
Organization Chart  
June 30, 2014**





Principal Leadership

Commonwealth Elected and Selected Appointed Officials as of June 30, 2014

Tom Corbett, Governor

Jim Cawley, Lieutenant Governor

Rob McCord, Treasurer

Eugene DePasquale, Auditor General

Kathleen Kane, Attorney General

Charles Zogby, Secretary of the Budget

Kelly Powell Logan, Secretary of Administration

Joseph Scarnati, President pro Tempore, Senate

Samuel Smith, Speaker of the House

Ronald Castille, Chief Justice State Supreme Court



Government Finance Officers Association

**Certificate of  
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**Commonwealth of Pennsylvania**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

A handwritten signature in black ink, reading "Jeffrey R. Emswiler". The signature is fluid and cursive.

Executive Director/CEO



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Financial Section



Department of the Auditor General  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120-0018



KPMG LLP  
Suite 1000  
30 North Third Street  
PO Box 1190  
Harrisburg, PA 17108-1190

## Report of Independent Auditors

The Honorable Tom Corbett, Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of the Philadelphia Regional Port Authority and the State Stores Fund, non-major Enterprise Funds, which represent 11 percent of total assets and 18 percent of total revenues of the business-type activities and 1 percent of total assets and 8 percent of total revenues of the aggregate remaining fund information, the Tuition Payment Fund and the Commonwealth Financing Authority, which are both major Enterprise Funds, and represent 33 percent of total assets and 4 percent of total revenues of the business-type activities, and certain discretely presented component units, which represent 100 percent of total assets and 100 percent of total revenues of the aggregate discretely presented component units. We also did not jointly



audit 100 percent of the total assets and 95 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets and 100 percent of the total additions of the Investment and Private Purpose Trust Funds, which, in total, comprise 85 percent of total assets and 70 percent of total additions/revenues of the aggregate remaining fund information. The financial statements of the Philadelphia Regional Port Authority, the State Stores Fund, the Tuition Payment Fund, the Commonwealth Financing Authority, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Philadelphia Regional Port Authority, the State Stores Fund, the Tuition Payment Fund, the Commonwealth Financing Authority, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commonwealth's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S generally accepted accounting principles.

***Emphasis of Matter***

*Pennsylvania Turnpike Commission*

As discussed in Note S to the financial statements, the Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under an Amended Lease and Funding Agreement as required under the terms of Act 44 of 2007 and Act 89 of 2013. The Pennsylvania Turnpike Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt and current lease payments. Our opinion is not modified with respect to this matter.

*Change in Accounting Principle Resulting from the Adoption of a New Accounting Pronouncement*

As discussed in Note B to the financial statements, effective July 1, 2013, the Commonwealth adopted the provisions of Governmental Accounting Standards Board's Statement No. 65, "Items Previously Reported as Assets and Liabilities." Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedules of funding progress and employer contributions of other postemployment benefit plans, and budgetary comparison information on pages 19 through 39 and 157 through 163 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Pennsylvania's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major special revenue funds, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.



KPMG LLP

December 19, 2014

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's (The Commonwealth's) Comprehensive Annual Financial Report (CAFR) is presented as Required Supplementary Information and provides a review and analysis of the Commonwealth's financial statements for the fiscal year ended June 30, 2014 and a comparison to the prior fiscal year. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 5 of this report, and with the Commonwealth's financial statements, which follow.

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## Section A: Understanding Government Financial Statements

Three questions are the focal points of the financial data in this report:

- 1) Near-term financing: Will the government be able to pay its bills (both expected and unexpected) on time?
- 2) Financial position: Is the government's financial health improving or deteriorating?
- 3) Economic condition: Is it likely that today's financial position will improve or deteriorate?

To assist the reader in answering these questions and others, the Commonwealth presents both government-wide financial statements and fund financial statements.

**Government-wide Financial Statements** are designed to provide a broad overview of the Commonwealth's finances, in a manner similar to a private-sector business. All of the Commonwealth's activities are reported in the government-wide statements except for activities accounted for in the fiduciary funds.

**Fund Financial Statements** focus on accountability of resources versus the government-wide financial's focus on the ability to meet financial obligations.

	Government-wide Statements			Fund Financial Statements		
	Governmental Activities	Business-Type Activities	Discretely Presented Components Units	Governmental Funds (see note 1)	Proprietary Funds (see note 2)	Fiduciary Funds (see note 3)
<b>Scope of report and Fund Types</b>	Activities generally financed through taxes, intergovernmental revenues, and other nonexchange revenues	Activities financed in whole or part by fees charged to external parties for goods and services	Legally separate organizations for which the elected officials of the primary government are financially accountable or it would be misleading to exclude them	<ul style="list-style-type: none"> <li>• General Fund</li> <li>• Special Revenue Funds</li> <li>• Debt Service Funds</li> <li>• Capital Projects Funds</li> </ul> *Generally used to account for tax-supported activities	<ul style="list-style-type: none"> <li>• Enterprise Funds</li> <li>• Internal Service Funds</li> </ul> *Activities that focus on the determination of operating income, changes in net position (cost recovery), financial position and cash flow	<ul style="list-style-type: none"> <li>• Agency Funds</li> <li>• Pension Trust Funds</li> <li>• Investment Trust Funds</li> <li>• Private-purpose Trust Funds</li> </ul> *Activities held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs
<b>Required Financial statements</b>	-Statement (Stmnt) of Net Position (1) -Stmnt of Activities (2)			<ul style="list-style-type: none"> <li>• Balance Sheet (3)</li> <li>• Stmnt of Revenues, Expenditures and Changes in Fund Balances (4)</li> </ul>	<ul style="list-style-type: none"> <li>• Stmnt of Net Position (1)</li> <li>• Stmnt of Revenues, Expenses and Changes in Net Position (8)</li> <li>• Stmnt of Cash Flows (5)</li> </ul>	<ul style="list-style-type: none"> <li>• Stmnt Fiduciary Net Position (6)</li> <li>• Stmnt of Changes in Fiduciary Net Position (7)</li> </ul>
<b>Accounting Methods</b> (see Note A for definitions)	Accrual and economic resource measurement focus			Modified accrual and current financial resource measurement focus	Accrual and economic resource measurement focus	Accrual

- (1) **Statement of Net Position** is a government-wide financial statement that reports the difference between assets, deferred outflows, liabilities and deferred inflows as net position, not fund balances or equity.
- (2) **Statement of Activities** is a government-wide financial statement that reports the net (expense) revenue of its individual functions.
- (3) **Balance Sheet** presents a comprehensive statement of the assets, deferred outflows, liabilities, deferred inflows and fund balances of the government at a point in time.
- (4) **Statement of Revenues, Expenditures, and Changes in Fund Balances** presents the flows of resources in and out, as well as fund balance at the beginning and end of the financial period.
- (5) **Statement of Cash Flows** provides relevant information about the cash receipts and cash payments during a period.
- (6) **Statement of Fiduciary Net Position** presents information about the assets, liabilities, and net position for each fiduciary fund type.
- (7) **Statement of Changes in Fiduciary Net Position** presents additions and deductions in net position, as well as net position at the beginning and end of the financial period.
- (8) **Statement of Revenues, Expenses, and Changes in Net Position** presents the inflows, outflows, and balances of current financial resources as well as net position at the beginning and end of the financial period.

**Note 1: Governmental Funds** focus primarily on the sources, uses and balances of current financial resources

and often have a budgetary focus. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the Commonwealth's programs.

**Note 2: Proprietary Funds** focus on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds. Enterprise funds are used in situations where a fund provides services primarily to external customers. Internal service funds are designed to function on a cost-reimbursement basis primarily providing benefits to other funds, departments or agencies of the government.

**Note 3: Fiduciary Funds** account for resources held for the benefit of parties outside the government and retired government employees. These activities have been excluded from the Commonwealth's government-wide financial statements because the assets are not available to finance its operations.

For further accounting policy explanations see Note A in the "Notes to Financial Statements" section of the CAFR.

All amounts in the MD&A are stated in millions unless otherwise indicated. There may be rounding differences between amounts reported in the MD&A section and amounts reported in other sections of the Comprehensive Annual Financial Report (CAFR).

## Section B: Condensed Financial Information

## Government-wide Statement of Net Position as of June 30, 2014 and 2013

(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>Assets:</b>						
Cash and investments.....	\$ 9,023	\$ 9,818	\$ 6,259	\$ 5,815	\$ 15,282	\$ 15,633
Capital assets (net).....	33,865	33,162	499	480	34,364	33,642
All other assets.....	8,163	7,776	1,792	1,978	9,955	9,754
<b>Total assets.....</b>	<b>51,051</b>	<b>50,756</b>	<b>8,550</b>	<b>8,273</b>	<b>59,601</b>	<b>59,029</b>
<b>Total deferred outflows.....</b>	<b>175</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>177</b>	<b>-</b>
<b>Liabilities</b>						
Accounts payable.....	6,212	6,268	801	908	7,013	7,176
All other current liabilities.....	4,165	3,604	1,239	1,033	5,404	4,637
Bonds payable, non-current.....	12,264	11,224	4,230	4,754	16,494	15,978
All other long-term liabilities.....	5,704	5,337	2,817	2,777	8,521	8,114
<b>Total liabilities.....</b>	<b>28,345</b>	<b>26,433</b>	<b>9,087</b>	<b>9,472</b>	<b>37,432</b>	<b>35,905</b>
<b>Net position</b>						
Net investment in capital assets.....	28,345	27,775	489	465	28,834	28,240
Restricted.....	2,195	2,235	938	748	3,133	2,983
Deficit.....	(7,659)	(5,687)	(1,962)	(2,412)	(9,621)	(8,099)
<b>Total net position.....</b>	<b>\$ 22,881</b>	<b>\$ 24,323</b>	<b>\$ (535)</b>	<b>\$ (1,199)</b>	<b>\$ 22,346</b>	<b>\$ 23,124</b>

## Statement of Net Position Variance Analysis Year Over Year

(A discussion of significant activities)

**Cash and investments** net decrease:

- Governmental Activities total cash and investments overall decreased by \$795. Temporary and long-term investments decreased \$840, while cash and cash with fiscal agent increased \$45. Overall, the PG's expenditures exceeded revenue during the fiscal year, due to increases in mandated spending without corresponding increases in the related net revenues. Health and Human Services showed the largest increase in expenses, particularly in the medical assistance programs.
- Business-Type Activities total cash and investments increased \$444. A contributing factor was the Tuition Payment Fund change in asset allocation, resulting in increased participation in the securities lending program. In addition, a significant portion of the increase is directly related to the increase in customer tuition credit deposits and continued market value appreciation. Additionally, the cash on hand at the Unemployment Compensation Trust Fund increased due to the overall decrease in the

unemployment rate, resulting in less benefits paid out as employer assessments continued to be collected.

**Capital assets** net increase:

- Governmental Activities capital assets increased \$703 primarily as a result of capitalizing improvements to the Commonwealth's bridge and roadway system, which represents the largest portion of the Commonwealth's investment in capital assets.

**All other assets** net increase: (Items reported in this category include taxes receivable, due from other governments, accounts receivable, inventory, supplies and other assets.)

- Governmental Activities reported an overall net increase of \$387. This increase was primarily due to an increase in taxes receivable as a result of the implementation of a new corporate tax system which provides additional data now built into the

methodology to calculate corporate taxes receivable.

- Business-Type Activities decrease of \$186 is primarily attributable to activity in the Unemployment Compensation Fund. There was an overall decrease in unemployment activity and thus a corresponding lower tax assessment receivable.

**Deferred outflows of resources increase:**

- The increase of \$177 represents the recognition of aggregated net losses on bond refundings as deferred outflows of resources in accordance with GASB Statement No. 65, which was implemented in the current fiscal year. GASB Statement No. 65 reclassified certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, revenues or expenses/expenditures.

**Accounts payable (A/P) decrease:** (A/P reports the outstanding short term debt to creditors incurred during the normal course of business.)

- Business-Type Activities A/P decrease of \$107 is primarily attributable to the State Lottery Fund's change in methodology for calculating the unpaid instant prize liability that now incorporates the ability to account for tickets that have expired and can no longer be presented for payment.

**All other current liabilities increase:** (Items reported in this category include tax refunds payable, due to other governments and political subdivisions, bonds payable and other current liabilities.)

- Governmental Activities increase of \$561 is primarily due to an increase in tax refunds payable resulting from the implementation of a new corporate tax system which provides additional data now built into the methodology for calculating corporate tax amounts subject to refunds.
- Business-Type Activities increase of \$206 was primarily due to changes in the asset allocation for the Tuition Payment Fund which resulted in increased participation in the securities lending program, as well as an increase in tuition benefits payable.

**Bonds payable, non-current net increase:** (Bonds Payable reports debt instruments that have been issued as payment for long-term debt.)

- Governmental Activities Bonds Payable increased \$1,040 primarily due to a general obligation bond issuance for capital facilities.
- Business-Type activities decreased \$524 as a result of Unemployment Compensation Fund revenue bonds being redeemed throughout the year.

**All other long-term liabilities increase:** (Liabilities reported in this category are due in periods beyond twelve months from the close of the fiscal year and will be repaid with future resources. Reported items include compensated absences, self-insurance, other postemployment benefit obligations and other long-term liabilities.)

- Governmental Activities increased \$367 primarily due to an increase in the other postemployment benefit liability.

**Net position** is one way of measuring the health of the Commonwealth's finances. An overall surplus is reported for Governmental Activities, however, the majority of the surplus is related to net investment in capital assets which are unavailable to utilize in satisfying the Commonwealth's day-to-day expenses. Other significant items to consider relative to net position include:

- The overall increase of \$594 in net investment in capital assets reflects the Commonwealth's investment in highway and bridge infrastructure, as well as investment in the land, building, right-of-way and waterway improvements.
- The decrease of \$1,442 in Governmental Activities total net position is a result of numerous factors. Significant factors include a tax revenues remained level coupled with expense increases. The largest expense increases occurred for medical assistance programs, support for public education and higher personnel benefit costs. The increase of \$664 in the Business-Type activities total net position is primarily due to growth in Lottery sales and an increasing participation in purchasing higher education credits and an increase in investment income in the Tuition Payment Fund.

## Statement of Activities for the Fiscal Years Ended June 30, 2014 and 2013

(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program Revenues						
Charges for sales and services	\$ 4,718	\$ 4,683	\$ 8,922	\$ 8,847	\$ 13,640	\$ 13,530
Operating grants and contributions	22,862	22,794	1,049	2,167	23,911	24,961
Capital grants and contributions	42	91	-	1	42	92
Total program revenues	27,622	27,568	9,971	11,015	37,593	38,583
General revenues: taxes & investment income	31,973	31,790	-	-	31,973	31,790
<b>Total revenues</b>	<b>59,595</b>	<b>59,358</b>	<b>9,971</b>	<b>11,015</b>	<b>69,566</b>	<b>70,373</b>
<b>Expenses</b>						
Governmental Activities						
Direction & supportive services	1,619	1,529	-	-	1,619	1,529
Protection of persons & property	6,216	6,014	-	-	6,216	6,014
Public education	14,205	13,885	-	-	14,205	13,885
Health & human services	31,634	30,496	-	-	31,634	30,496
Economic development	1,006	1,033	-	-	1,006	1,033
Transportation	5,205	4,764	-	-	5,205	4,764
Recreation and cultural enrichment	523	519	-	-	523	519
Interest	494	489	-	-	494	489
Business-Type Activities						
State lottery	-	-	3,721	3,732	3,721	3,732
Unemployment compensation	-	-	3,189	4,498	3,189	4,498
Liquor control	-	-	1,683	1,618	1,683	1,618
Commonwealth financing	-	-	190	261	190	261
State workers' insurance	-	-	268	366	268	366
Tuition payment, economic development and other	-	-	324	290	324	290
<b>Total expenses</b>	<b>60,902</b>	<b>58,729</b>	<b>9,375</b>	<b>10,765</b>	<b>70,277</b>	<b>69,494</b>
Excess/(deficiency) before transfers	(1,307)	629	596	250	(711)	879
Transfers	(103)	17	103	(17)	-	-
<b>Increase (decrease) in net position</b>	<b>(1,410)</b>	<b>646</b>	<b>699</b>	<b>233</b>	<b>(711)</b>	<b>879</b>
<b>Net position-beginning</b>	<b>24,323</b>	<b>23,683</b>	<b>(1,199)</b>	<b>(1,158)</b>	<b>23,124</b>	<b>22,525</b>
<b>Restated Note B</b>	<b>(32)</b>	<b>(6)</b>	<b>(35)</b>	<b>(274)</b>	<b>(67)</b>	<b>(280)</b>
<b>Net position-ending</b>	<b>\$ 22,881</b>	<b>\$ 24,323</b>	<b>\$ (535)</b>	<b>\$ (1,199)</b>	<b>\$ 22,346</b>	<b>\$ 23,124</b>



### Statement of Activities Revenue Variance Analysis Year-Over-Year (A discussion of significant activities)

**Charges for sales and services** for the PG increased \$110 for the fiscal year ended June 30, 2014. Governmental Activities reflected an increase. While the General Fund reported an overall decline in fee revenue, this was offset by an increase of rent, royalty and fee revenue from the Marcellus Shale industry. Increases in Lottery ticket sales and wine and spirit sales, offset by a decrease in unemployment compensation assessments, resulted in an overall increase for Business-Type Activities.

**Operating grants and contributions** experienced a net decrease of \$1,050. The Governmental Activities increased as a result of increased federal Human Service grants offset by decreases in federal Education and Emergency Services grants. Business-Type Activities experienced a decrease. Unemployment Compensation was the primary factor in this decrease, resulting from a reduction in claims and the corresponding reduction in

federal grants. State Workers Insurance Fund (SWIF) also experienced a reduction in investment return.

**Capital grants and contributions** reported an overall decrease of \$50 related in large part to the winding down and discontinuance of the American Recovery and Reinvestment Act (ARRA) grant dollars used by the Department of Military and Veterans Affairs to fund construction projects.

**Taxes and investment income** net increase of \$183 in Governmental Activities is primarily a result of the increase in liquid fuels and carrier tax, sales tax and the enhanced revenue collection program, offset by a decrease in corporate tax income as a result of the implementation of a new corporate tax system, which changes the methodology to calculate corporate taxes receivable and the corresponding accrued tax revenue.

### Statement of Activities Expense Variance Analysis Year-Over-Year (A discussion of significant activities)

#### Governmental Activities

**Direction and supportive services** increased \$90. A prime factor contributing to the increase was the expensing of construction project amounts not meeting Commonwealth asset capitalization policy requirements. Another factor was the disbursement of a new grant to the City of Philadelphia for the Philadelphia School District.

**Protection of persons and property** increased \$202 primarily due to increases in personnel benefits for the Department of Corrections and the State Police. Offsetting these increases were reductions in grants disbursed by the Pennsylvania Emergency Management Agency.

**Public education** increased \$320 primarily due to an increase in basic education funding and the Commonwealth's contributions for school employee pension costs.

**Health and human services** increased \$1,138 primarily due to an increase in grants and payments to individuals issued by the Department of Public Welfare, particularly in the medical assistance programs.

**Transportation** increased \$441 primarily as a result of expensing of road construction project amounts not meeting Commonwealth asset capitalization policy requirements.

#### Business-Type Activities

**Unemployment Compensation (UC)** program expenditures declined \$1,309. The decline was primarily due to the overall decline in unemployment benefits and claims.

**Liquor Control Board (LCB)** increased \$65 primarily as a result of an increase in cost of goods sold, operating expenses and personnel costs.

**Commonwealth Financing Authority (CFA)**, a blended component unit (see Note A for the definition), expenses decreased \$71 primarily due to a decrease in grant disbursements.

**State Workers' Insurance** expenses decreased \$98 primarily due to a less unfavorable year-over-year development of reserves based on actuary estimates, which reduces the cost of sales and services.

## Section C: Commonwealth's Overall Financial Activity

### Government-wide Revenue Total By Categories

(amounts in millions)

The revenue for all Governmental and Business-Type Activities contributing toward the Commonwealth's operating programs is displayed on this statement.

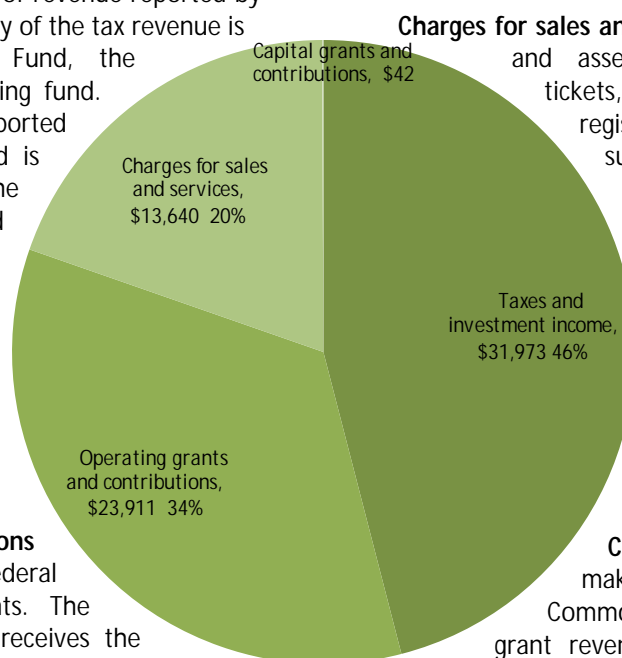
**Tax revenue** is the largest share of revenue reported by the Commonwealth. The majority of the tax revenue is deposited into the General Fund, the Commonwealth's largest operating fund. Significant tax revenue is also reported in the Motor License Fund and is utilized to fund the Commonwealth's highway and bridge infrastructure improvements and enhancements. The gaming taxes provide funding for several initiatives, most notably the Commonwealth's property tax relief program.

**Operating grants and contributions** include the revenue from the federal government in the form of grants. The Department of Public Welfare receives the most federal funds for medical assistance and other social service programs. Other agencies that receive significant federal funds include the Department of Labor and Industry supporting the Unemployment Compensation program, Department of Transportation

supporting infrastructure development, Department of Health supporting an effective public health system and the Department of Education funding basic and higher education programs.

**Charges for sales and services** report the sales, fees and assessments charged for lottery tickets, licenses, permits and various registration requirements that support many of the Commonwealth's services and programs. The largest portion of charges for sales and services is reported by the State Lottery Fund and the Unemployment Compensation Fund; the profits from lottery ticket sales are utilized to support programs for the elderly.

**Capital grants and contributions** makes up a small percentage of the Commonwealth's total revenue. The grant revenue reported here is received from the federal government and supports construction projects for transportation and military affairs.



# Government-wide Expense Total By Categories

(amounts in millions)

The expense for all Governmental and Business-Type Activities is shown on this statement. Year-over-year, the biggest change in program expense was an increase in medical assistance programs and contributions to the retirement system. In order to meet the growing demands of health and human services and education programs, along with the rising cost of the employers' contribution to the pension systems, the Commonwealth continues to streamline state government operations to achieve efficiencies.

**Health and human services** programs are the responsibility of the Departments of Public Welfare, Health, Aging and Drug and Alcohol programs. Some agencies include these programs to ensure access to medical care for all citizens, support citizens seeking self-sufficiency and maximize citizen's opportunities to participate in society.

**Public education** programs are managed primarily by the Department of Education. The Commonwealth strives to provide a system of learning experiences and opportunities through quality basic, special, technical and higher education programs.

**Protection of persons and property** addresses the substantive areas of consumer and environmental protection, certain regulatory activities, the criminal

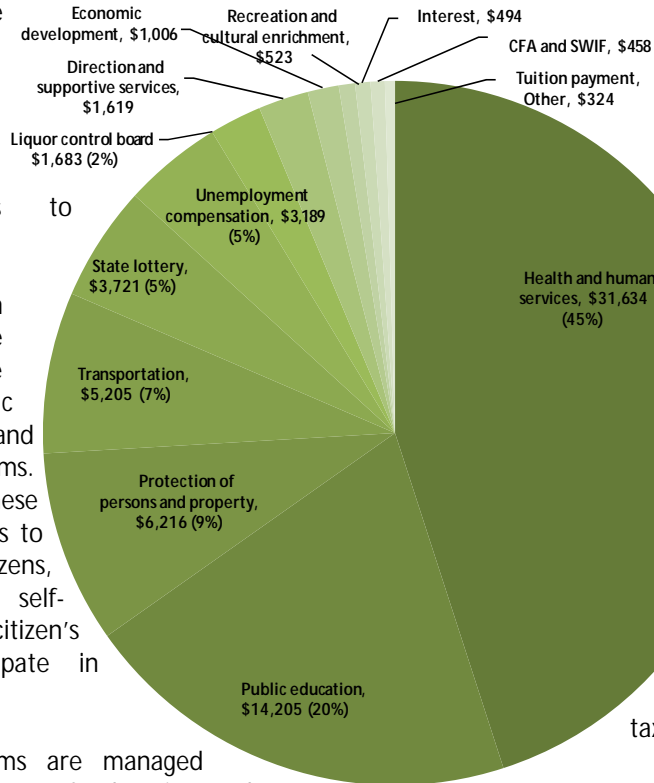
justice system and the mitigation of the effects of disasters. The State Police, Attorney General, Department of Corrections, Department of Military and Veterans Affairs and the Pennsylvania Emergency Management Agency are some of the agencies that support these programs.

**Transportation** reports the expenses in support of the Commonwealth's road and bridge infrastructure improvements and enhancements as well as the costs to provide licensing and highway safety programs.

**State lottery** expenses report the cost of sales and services to manage and maintain the Commonwealth's lottery program. All profits from the lottery program benefit the elderly population through the funding of programs ensuring reduced costs on prescriptions, access to public transportation, and property tax and rent rebate programs.

**Unemployment compensation** reports the expenses for payments made to unemployed individuals.

**Other expenses** reported include those for economic development, recreation and cultural enrichment, interest, liquor control, workers' compensation and the tuition payment fund program.



## Section D: Individual Funds Analysis

## General Fund Assets, Liabilities, Deferred Inflows and Fund Balance

Condensed, comparative, financial information (amounts in millions)

The General Fund, the Commonwealth's largest fund, accounts for approximately 79% of the total governmental fund type revenues and other financing sources and 80% of the total governmental fund type

expenditures and other financing uses. The General Fund collects approximately 85% of the total tax revenues and is the primary funding source for most Commonwealth expenditures.

	2014	2013
<b>Assets:</b>		
Cash and investments.....	\$ 3,434	\$ 4,680
Receivables, net.....	4,476	4,028
Due from other funds/governments/advances/other.....	2,814	2,849
<b>Total assets.....</b>	<b>\$ 10,724</b>	<b>\$ 11,557</b>
<b>Liabilities:</b>		
Accounts payable and tax refunds payable.....	\$ 6,259	\$ 5,835
Securities lending obligations.....	7	6
Due to other funds/governments/advances/other.....	2,353	2,005
Unearned revenue.....	37	2,145
<b>Total liabilities.....</b>	<b>8,656</b>	<b>9,991</b>
<b>Total deferred Inflows of resources.....</b>	<b>2,634</b>	<b>-</b>
<b>Fund Balance:</b>		
<b>Total fund balance.....</b>	<b>(566)</b>	<b>1,566</b>
<b>Total liabilities, deferred inflows of resources and fund balance.....</b>	<b>\$ 10,724</b>	<b>\$ 11,557</b>

**Cash and investments** decreased by \$1,246. Total revenue, primarily tax revenue and federal grant revenue, decreased while total expenditures supporting medical assistance programs and public education programs increased.

**Receivables, net** increased by \$448 primarily due to an increase in taxes receivable as a result of the implementation of a new corporate tax system which provides additional data now built into the methodology for calculating corporate taxes, as well as an increase in the receivable for personal income tax.

**Accounts payable and tax refunds payable** increased by \$424. The largest increase is attributable to tax refunds payable, as a result of the implementation of a new corporate tax system which provides additional data now

built into the methodology for calculating the payables related to corporate taxes.

**Unearned revenue and deferred inflows of resources** net increase of \$526 was primarily due to a new corporate tax system implementation, which changed the methodology for calculating corporate tax receivables, combined with the implementation of a new accounting and financial reporting standard where certain unearned revenue was reclassified to deferred inflows of resources.

**Total fund balance** decreased \$2,132 primarily as health and human services expenditures increased by \$1,481 and education expenditures increased by \$256, coupled with a total revenue decrease of \$622.

## General Fund

Condensed, comparative, financial information (amounts in millions)

	2014	2013
<b>Revenues:</b>		
<b>Taxes, net of refunds</b>		
Personal income.....	\$ 10,689	\$ 10,763
Sales and use.....	8,923	8,676
Corporation.....	4,086	4,725
Inheritance.....	860	799
Cigarette.....	948	1,018
Realty transfer.....	374	337
Gaming.....	93	89
Other.....	1,303	1,167
<b>Total taxes, net of refunds.....</b>	<b>27,276</b>	<b>27,574</b>
Intergovernmental.....	19,997	20,152
Charges for sales and services.....	1,494	1,452
Licenses/fees/investment and other income.....	785	996
<b>Total revenues.....</b>	<b>49,552</b>	<b>50,174</b>
<b>Expenditures:</b>		
Direction and supportive services.....	902	889
Protection of persons and property.....	4,424	4,344
Health and human services.....	31,251	29,770
Public education.....	13,481	13,225
Recreation and cultural enrichment.....	261	235
Economic development.....	459	473
Transportation.....	53	14
Capital outlay.....	104	123
Other expenditures.....	25	25
<b>Total expenditures.....</b>	<b>50,960</b>	<b>49,098</b>
Revenues over expenditures.....	(1,408)	1,076
<b>Other financing sources (uses):</b>		
Transfers in.....	486	450
Transfers out.....	(1,211)	(1,215)
Capital lease and installment purchase obligations.....	1	1
<b>Net other financing uses.....</b>	<b>(724)</b>	<b>(764)</b>
<b>Net change in fund balance.....</b>	<b>(2,132)</b>	<b>312</b>
Fund balance, beginning.....	1,566	1,260
Restated Note B.....	-	(6)
<b>Fund balance (deficit), ending.....</b>	<b>\$ (566)</b>	<b>\$ 1,566</b>

**Taxes, net of refunds** decrease of \$298 is primarily attributable to a decrease in corporate tax revenues, as a result of the implementation of a new corporate tax system which provides additional data now built into the methodology for calculating corporate tax refunds due to taxpayers.

**Intergovernmental revenues** \$155 decrease related to lower federal grant revenues. The largest decreases were in the high-risk health insurance grant program that was discontinued, and a slowdown in the distribution of education related grant entitlements due to a change in application processing. There was also a drop in emergency management related grants, Medicare Part D and early retiree reinsurance rebates.

**Licenses/fees/investment and other income** \$211 decrease primarily reflects a reduction in other income related to the Pennsylvania Infrastructure Investment Authority bond proceeds receivable. Additionally, there was a one-time payment received related to the Homeowner Assistance Settlement Fund that was reported in the prior fiscal year.

**Total expenditures** increased by a net \$1,862. The largest increases were for grants and payments to individuals and personnel benefit costs, reflected in the health and human services, public education and protection of persons and property categories.

**Health and human services** experienced an increase of \$1,481 in expenditures due primarily to the expansion of contracts with managed care organizations and counties

to provide health care services to medical assistance recipients.

**Public education** expenditures increased \$256 primarily with respect to increases in basic education funding and state contributions for school employee pension costs.

**Protection of persons and property** experienced an increase of \$80 largely due to an increase in the

Commonwealth's employers' share of retirement contributions. This increase was offset by a decrease in contracted services within corrections programs and federally funded grant programs, particularly in emergency management services and environmental protection programs.

### Motor License Fund

Condensed, comparative, financial information (amounts in millions)

Description	2014	2013
Cash and investments.....	\$ 1,240	\$ 1,190
Other assets.....	602	581
<b>Total assets.....</b>	<b>\$ 1,842</b>	<b>\$ 1,771</b>
Accounts payable.....	\$ 536	\$ 541
Securities lending obligations.....	18	19
Other liabilities.....	164	146
<b>Total liabilities.....</b>	<b>718</b>	<b>706</b>
<b>Total fund balance.....</b>	<b>1,124</b>	<b>1,065</b>
<b>Total liabilities and fund balance.....</b>	<b>\$ 1,842</b>	<b>\$ 1,771</b>
Tax revenues.....	\$ 2,350	\$ 2,058
Licenses and fees.....	874	921
Intergovernmental.....	1,949	1,935
Other revenues.....	196	185
<b>Total revenues.....</b>	<b>5,369</b>	<b>5,099</b>
Direction and supportive services.....	26	32
Protection of persons and property.....	781	743
Transportation.....	2,225	2,036
Capital outlay.....	2,228	2,384
Other expenditures.....	4	1
<b>Total expenditures.....</b>	<b>5,264</b>	<b>5,196</b>
Net other financing uses.....	(45)	(31)
<b>Net change in fund balances.....</b>	<b>\$ 60</b>	<b>\$ (128)</b>

**Fund Description:** The Motor License Fund receives revenues from various taxes, fees, federal aid and aid from various political entities. The Motor License Fund incurs expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

**Cash and investments** increased \$50 primarily to investments valuation appreciation over the valuation at the same time last year, indicating an improvement in the investment market during the year.

**Tax revenues** increased \$292 primarily due to the passage of Act 89 of 2013. Under Act 89, the average wholesale price of all taxable liquid fuels was raised to \$1.87 from \$1.25, effectively raising the gas tax per gallon by 9.5 cents and the diesel tax per gallon by 12.9 cents. The increase went into effect January 1, 2014.



**Licenses and fees** revenues decreased \$47 primarily to Act 71 of 2013 redirecting fines, forfeitures and penalties for vehicle offenses payable under 42 Pa.C.S. §3571(b) from the Motor License Fund to the General Fund.

**Transportation and Capital Outlay** expenditure net increase of \$33 relates to a number of factors. Personnel costs increased mostly due to an increase in personnel benefit costs. Funds moved from the Capital Facilities

Fund for eligible bridge project expenses, as established by Act 96 of 2008, decreased, as those funds were exhausted, leaving the Motor License Fund to absorb additional costs in the current fiscal year. These increases were offset by a decrease in overall expenditures in operational and highway project costs as funds were diverted to cover increased personnel costs.

### Unemployment Compensation Fund

Condensed, comparative, financial information (amounts in millions)

Description	2014	2013
Cash and investments.....	\$ 763	\$ 650
Unemployment assessments receivable.....	705	822
Other assets.....	555	572
Total assets.....	2,023	2,044
Accounts payable.....	97	129
Other liabilities.....	2,937	3,292
Total liabilities.....	3,034	3,421
Restated Note B.....	-	(13)
<b>Total net position.....</b>	<b>\$ (1,011)</b>	<b>\$ (1,390)</b>
Total operating revenues: Sales and services.....	\$ 2,901	\$ 3,031
Total operating expenses: Cost of sales and services.....	3,145	4,460
Operating loss.....	(244)	(1,429)
Nonoperating revenues.....	663	1,764
Income before transfers.....	419	335
Transfer.....	(40)	(1)
<b>Increase in net position.....</b>	<b>\$ 379</b>	<b>\$ 334</b>

**Fund Description:** The Unemployment Compensation (UC) Fund collects employer assessments for unemployment compensation and transfers the assessments to the federal government for deposit in the UC Trust Fund. These funds are drawn down to pay unemployment compensation payments to claimants as needed.

**Cash and investments** increased \$113 primarily due to an increase in UC-covered employment resulting from an improving labor market coupled with a state UC law change that increased the taxable wage base starting on January 1, 2013. In addition, there was an increase in funds collected from Interstate Receipts as a result of new programs implemented.

**Unemployment Assessments Receivable** decreased \$117 due to an overall decrease in tax assessment

receivable. A successful amnesty campaign contributed as well to the lower receivable.

**Other liabilities** decreased \$355 as a result of UC revenue bonds being redeemed throughout the year.

**Sales and services** decrease of \$130 represents several components, the largest of which was the overall decrease in unemployment activity and rates. A decrease in claims resulted in fewer federal drawdowns and lower employer contribution rates, both of which contributed to lower revenue.

**Cost of sales and services** and **nonoperating revenue** decreased \$2,416 primarily due to the continued phase out of the extended unemployment benefits program and the overall decline in unemployment benefits and claims.

## State Workers Insurance Fund (SWIF)

For the Fiscal Years Ended December 31  
Condensed, comparative, financial information (amounts in millions)

Description	2013	2012
Cash and short-term investments.....	\$ 161	\$ 176
Long-term investments.....	1,380	1,436
Other assets.....	86	75
Total assets.....	1,627	1,687
Securities lending obligations.....	82	82
Unearned revenue.....	90	81
Insurance loss liability.....	1,578	1,587
Other liabilities.....	50	39
Total liabilities.....	1,800	1,789
<b>Net position.....</b>	<b>\$ (173)</b>	<b>\$ (102)</b>
Sales and services.....	\$ 207	\$ 178
Provision for uncollectible accounts.....	(5)	(9)
Total operating revenues.....	202	169
Total operating expenses: Cost of sales and services.....	259	352
Operating loss.....	(57)	(183)
Investment income.....	(9)	91
Investment expense.....	(4)	(4)
Net nonoperating revenue.....	(13)	87
<b>Decrease in net position.....</b>	<b>\$ (70)</b>	<b>\$ (96)</b>

**Fund Description:** The SWIF operates for the purpose of providing workers' compensation insurance to employers, including those refused policies by private insurance firms.

**Long term investments** decreased \$56 due to the rotation of securities held and use of investments to fund immediate cash flow needs during the year.

**Cost of sales and service** decreased \$93 due to a less unfavorable year-over-year development of reserves

based on actuary estimates, which reduces the cost of sales and services.

**Investment income decreased** \$100 primarily due to an adjustment in net asset value. This is due to a rotation of investments held (which increases cost), coupled with the use of investments to fund immediate cash flow needs, whereby reducing investment income.

## State Lottery Fund

Condensed, comparative, financial information (amounts in millions)

Description	2014	2013
Cash and short-term investments.....	\$ 263	\$ 253
Long-term investments.....	63	57
Other assets.....	76	70
Total assets.....	402	380
Accounts payable.....	378	461
Securities lending obligations.....	2	2
Other liabilities.....	38	52
Total liabilities.....	418	515
<b>Net position.....</b>	<b>\$ (16)</b>	<b>\$ (135)</b>
Total operating revenues: Sales and services.....	\$ 3,801	\$ 3,701
Cost of sales and services.....	3,607	3,623
Other expenses.....	114	112
Total operating expenses.....	3,721	3,735
Operating income (loss) .....	80	(34)
Nonoperating revenues, net.....	95	81
Income before transfers.....	175	47
Transfers in.....	167	167
Transfers out.....	(223)	(281)
Transfers, net.....	(56)	(114)
<b>Increase (decrease) in net position.....</b>	<b>\$ 119</b>	<b>\$ (67)</b>

**Fund Description:** The State Lottery Fund receives the proceeds of all lottery sales and designates all of its net proceeds to programs that benefit older Pennsylvanians.

**Accounts Payable** decreased \$83 primarily as a result of a change in the methodology for calculating the unpaid instant prize liability as of fiscal year ended June 30, 2014.

**Sales and services** increased \$100 primarily as the result of increased instant game sales during the fiscal year.

Year-over-year growth for instant tickets has been dramatic over the last four fiscal years. This has been driven mostly by growth in the \$20 and above price points. The first \$30 instant game was introduced, adding incremental growth to the higher price point instant category. Consumer appetite for the higher payout and higher top prize games continues to grow nationally as well as in Pennsylvania.

## Tuition Payment Fund

Condensed, comparative, financial information (amounts in millions)

Description	2014	2013
Cash and short-term investments.....	\$ 473	\$ 316
Long-term investments.....	1,351	1,267
Other assets.....	20	16
Total assets.....	1,844	1,599
Securities lending obligations.....	126	60
Tuition benefits payable.....	1,540	1,481
Other liabilities.....	22	29
Total liabilities.....	1,688	1,570
<b>Net position.....</b>	<b>\$ 156</b>	<b>\$ 29</b>
Total operating revenues: Sales and services.....	\$ 192	\$ 182
Total operating expenses: Cost of sales and services.....	273	244
Operating loss.....	(81)	(62)
Nonoperating revenues, net.....	208	133
<b>Increase in net position.....</b>	<b>\$ 127</b>	<b>\$ 71</b>

**Fund Description:** The fund is administered by the Tuition Account Guaranteed Savings Program Bureau, an office within the State Treasury. The fund provides Commonwealth residents the opportunity to prepay college tuition towards future education expenses at eligible educational institutions.

**Cash and short-term investments** increased \$157 due to changes in the asset allocation. A portion of the Tuition Payment Fund long-term investments were shifted to short-term investments due to a change/rebalancing of their asset allocation to an increased participation in the securities lending program.

**Long-term investments** increased \$84 primarily due to the increase in customer tuition credit deposits and continued market value appreciation.

**Securities lending obligations** increased \$66 due to a change in the asset allocation described in the preceding cash and short-term investments narrative.

**Tuition benefits payable** increased \$59 primarily due to an increase in purchased tuition credits. The tuition benefit payable is an actuarially determined present value of future tuition obligations payable by the fund. The present value is based on several assumptions, including those related to tuition cost increases, investment experience, income from account maintenance fees, and program expenses.

**Non-operating revenues, net** increased \$75 primarily due to market appreciation for equity.

## Commonwealth Financing Authority

Condensed, comparative, financial information (amounts in millions)

Description	2014	2013
Current assets.....	\$ 652	\$ 660
Long-term assets.....	284	306
Total assets.....	936	966
Current liabilities.....	71	68
Long-term liabilities.....	1,601	1,658
Total liabilities.....	1,672	1,726
Restated Note B.....	-	(21)
Total net position.....	\$ (736)	\$ (781)
Operating revenues net of uncollectibles.....	\$ 9	\$ 9
Operating expenses.....	105	174
Interest expense.....	85	81
Nonoperating (revenue) expense, net.....	(1)	4
Total net expenditures.....	189	259
Loss before transfers.....	(180)	(250)
Transfers in.....	226	133
Increase (decrease) in net position.....	\$ 46	\$ (117)

**Fund Description:** The purpose of CFA is to engage in financial assistance in the form of loans, loan guarantees, grants and private equity participating loans to promote the health, safety, employment, business opportunities and economic activity of the Commonwealth.

**Total liabilities** decreased \$54 primarily because there were no new bond issuances and principal payments were made in the fiscal year.

**Operating expenses** decreased \$69 primarily due to a decrease in grant disbursements.

**Transfers in** increased \$93 primarily due to a transfer into the Local Share Account, and a transfer into the Act 13 program account, both from the Commonwealth. Both transfers provide funding necessary to make disbursements for each respective program.

## Section E: Budget Analysis Overview

## General Fund Budgetary Basis

## Comparison between original budget and final budget

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2014 is presented immediately following the Notes to the Financial Statements. In the Final Budget, State Program revenues were adjusted to include revenues received by fiscal year-end (but not included in the Commonwealth's official revenue estimate), in an amount equal to 2013-

14 supplemental appropriations passed on June 30, 2014 by Act 1-A.

Final budgeted Tax Revenues were \$3 higher than the original budget, primarily due to projected increases of \$63 in corporation taxes and \$60 net decrease in other taxes revenue.

## General Fund Budgetary Basis

## Comparison between final budgeted and actual results

Actual total state revenues were \$509 less than the final budgeted state revenues primarily due to decreases in

corporate tax revenues actually received but were offset by the \$170 reduction in refunds for a net decrease of

\$339. The \$587 increase in departmental services is mainly attributable to authorized transfers of augmenting revenues from the Motor License Fund for state police protection of Commonwealth highways, resulting in the net increase of \$249 in state program revenues.

Actual federal revenues and corresponding expenditures were \$510 less than budgeted due to decreases of \$399, \$86, and \$34 in the Department of Public Welfare, Department of Health and Department of Insurance respectively, offset primarily by a \$9 federal grant within the PA eHealth Partnership Authority.

## Section F: Capital Asset And Long-term Debt Activity

### Capital Asset Overview and Explanation

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund financial statements, expenditures for capital assets are typically reported as capital outlay. General capital assets of the Commonwealth are those used in the performance of specific governmental functions with useful lives greater than one year. General capital assets are reported as part of governmental activities in government-wide financial statements. Capital assets of proprietary funds are reported in both proprietary fund financial statements and government-wide financial statements. Fiduciary fund capital assets are reported in fiduciary fund financial statements; fiduciary funds are not included in government-wide financial statements.

Funding for construction of buildings and related improvements is almost entirely provided by proceeds of general obligation (GO) bonds issued; such proceeds are generally accounted for in capital projects funds in governmental fund financial statements as an other financing source. In the government-wide financial statements, bond proceeds are reported as additions to long-term GO bond liabilities. Construction project expenditures and cumulative construction-in-progress expenditures at fiscal year-end are reported as part of general capital assets. Highway and bridge infrastructure assets are typically funded with Motor License Fund taxes, license and registration fees, transfers from the Pennsylvania Turnpike Commission, and federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in its

governmental fund financial statements; a portion of such expenditures are reported as additions to capital assets in government-wide financial statements.

In government-wide and proprietary fund financial statements, depreciation expense for capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. In other words, depreciation expense is an allocation of an asset's cost over its estimated useful life and is reported in the government-wide financial statements. This treatment differs from reporting capital outlay as 'current expenditures' in governmental fund financial statements. Depreciation expense of highway and bridge infrastructure and other capital assets is not related to the quality or relative value of these assets; rather, as previously mentioned, it is a specific accounting treatment to recognize the cost of "using up" the assets over periods of time. The estimated useful lives of highway and bridge infrastructure capital assets are 25 years for highways and 50 years for bridges. Neither land nor construction-in-progress assets is considered depreciable; therefore, no depreciation expense is reported for those assets.

**Note A** to the financial statements discusses capital assets significant accounting policies.

**Note E** to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2014.

### Long-term Debt Graph and Explanations

(Amounts in millions)

The constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average

of the annual tax revenues deposited in all funds during the previous five fiscal years. The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was



\$61.3 billion as of August 31, 2014, with net debt outstanding after credit for refunded debt of \$9.96 billion. In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate-approved programs, such as economic revitalization, land and water development, water facilities restoration, and certain environmental initiatives; and for special purposes approved by the General Assembly, such as disaster relief.

Total general obligation bond principal indebtedness outstanding at June 30, 2014 was \$11.4 billion. During the fiscal year ended June 30, 2014, total debt service fund transfers were paid from General Fund of \$1.1 billion, Motor License Fund of \$64 and Gaming Economic Development and Tourism Fund of \$47 to make principal and interest payments to bondholders.

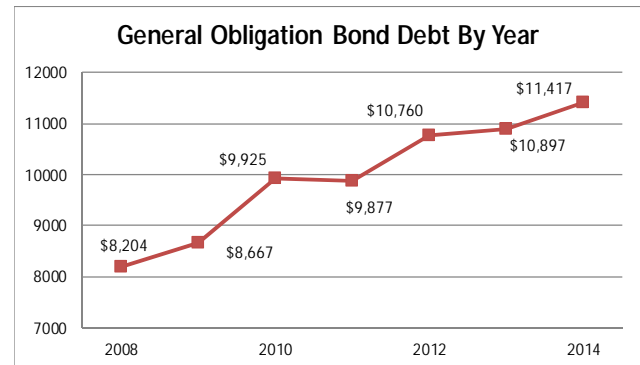
### Debt Overview – fiscal year ending June 30, 2014

At June 30, 2014, the PG had total General Obligation Bonds principal outstanding of \$11.4 billion for the following purposes:

\$7,434 Capital Facilities Bonds  
\$2,886 Refunding Bonds  
\$1,097 Electorate Approved Debt (various)

Over the six-year period ended June 30, 2014, total net outstanding general obligation debt increased at an average annual rate of 5.8% as reflected in the graph to the right.

Note K in the Notes to the financial statements provides more details on long-term debt balances and activity.



### Debt Administration – fiscal year ending June 30, 2015

During the fiscal year ending June 30, 2015, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,346. This is an increase of \$51 when compared to actual new money bond issuances of \$1,295, which excludes refunding issuance of \$290, during the fiscal year ended June 30, 2014. This plan reflects the need to make continued investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation infrastructure. Debt principal retirements of \$733 are currently planned for the fiscal year ending June 30, 2015.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the

General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the fiscal year and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued any such notes through November 2014 but, instead, has borrowed \$1,450 from the Pennsylvania Treasury Department through a short-term line of credit agreement. All monies drawn using the line of credit must be repaid with interest in the same fiscal year in which the draw occurred.

There were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2014 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2015.

## Section G: Currently Known Facts

### Job Creation

The Commonwealth continues its efforts to focus on economic development and tax policy changes that will foster an improved climate for job growth. Pennsylvania First continues to be an important program to assist job creators looking to relocate or expand in Pennsylvania. Since the creation of Pennsylvania First, more than 10,000 new jobs have been created and more than 40,000 jobs have been retained.

Additionally, Pennsylvania First supported the training of more than 175,000 employees. To close the skills gap, the Pennsylvania Targeted Industry Program is providing financial aid grants to meet workforce needs. To date, grants have been awarded to more than 1,200 students – including veterans – enrolled in certification programs in high-demand industries such as energy, advanced materials and diversified manufacturing, and agriculture and food production.

### Transportation Funding

In November 2013, House Bill 1060 was enacted. The transportation plan will invest an additional \$2.3 billion over five years into the Commonwealth's roads, bridges, transit and multimodal transportation systems. By its fifth year of implementation, approximately 50,000 new jobs are projected to be created.

### Pension Accounting and Financial Reporting Standard

On June 25, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27". The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The statement is effective for the fiscal year ending June 30, 2015. The statement will require the Commonwealth to report in the statement of net position a significant pension liability. As of the issuance date of this report, the Commonwealth has not prepared an estimate in accordance with GASB Statement No. 68 of the impact that reporting a pension liability will have on its financial statements.

### Tobacco Settlement Fund – Master Settlement Agreement (MSA) Litigation

On September 11, 2013, an arbitration panel under the Tobacco Master Settlement Agreement (MSA) issued a decision that the Commonwealth and five other states did not diligently enforce provisions of the MSA during

calendar year 2003. As a result, it was ruled that the Commonwealth would receive about \$150 from the MSA agreement in 2014, rather than the \$330 typically received annually. In anticipation of the reduction, the Commonwealth reduced funding for programs such as Commonwealth Universal Research Enhancement (CURE) grants. Commonwealth attorneys appealed the ruling by arguing in Pennsylvania Common Pleas Court that the ruling should be overturned, claiming the state did a proper job enforcing the law and that the panel failed to follow a common set of standards in defining diligence. The motion to vacate the arbitrators' decision was denied. However, in April 2014 the Court modified the ruling so that the Commonwealth's payment would be reduced by an estimated \$60 rather than the \$180 reduction initially mentioned, hinging on the formula for assessing how much to penalize states for alleged lack of diligence. Currently, the figures are estimates and subject to further auditing. The arbitration for 2003 has ramifications for the future in that tobacco companies could pursue similar litigation for years beyond 2003, which could cost the Commonwealth billions of dollars.

### The Department of Community & Economic Development (DCED)

DCED will sell through an initiative called Innovate in PA - with the assistance of a third-party entity - \$100 of deferred insurance premium tax credits (tax credits) to qualified buyers. A qualified buyer is an insurance company that is authorized to do business in the Commonwealth. The capital generated through the sale of the tax credits will be allocated to DCED's economic development partners in accordance with the enabling legislation.

### The Pennsylvania Department of Transportation (PennDOT)

PennDOT approved in September 2013 a public-private initiative called Rapid Bridge Replacement Project. The Commonwealth's Public-Private Transportation Partnership Board will select numerous firms to replace or repair as many as 650 structurally deficient bridges. The contracts will call for those firms to then maintain the bridges for the next 25 years. PennDOT anticipates that agreement on all the commercial terms of the project will be reached in December 2014, and construction will begin in the summer of 2015. Construction on all bridges will end in the summer of 2018.

**Bond Ratings**

In July 2014, Moody's Investors Service downgraded the Commonwealth's bond rating to Aa3. In September 2014, Fitch Ratings downgraded the Commonwealth's bond rating to AA- and Standard and Poors also downgraded the Commonwealth's bond rating to AA-. The ratings reflect only the views of the respective rating agencies.

The ratings are based upon current information furnished by the Commonwealth or obtained from other sources considered reliable by the rating agencies, which do not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Basic Financial Statements

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Government-Wide Financial Statements

**Commonwealth of Pennsylvania**  
**Statement of Net Position**

June 30, 2014

(Amounts in thousands)

(Amounts in thousands)	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>ASSETS</b>				
Current assets:				
Cash—Note D, S.....	\$ 336,625	\$ 712,550	\$ 1,049,175	\$ 1,698,680
Cash with fiscal agents—Note D.....	13,755	713,687	727,442	-
Temporary investments—Note D, S.....	6,168,474	1,316,199	7,484,673	2,946,715
Receivables (net):				
Taxes—Note G.....	2,115,123	-	2,115,123	-
Unemployment assessments.....	-	704,618	704,618	-
Accounts.....	1,288,440	202,231	1,490,671	175,502
Investment income.....	6,281	13,723	20,004	5,705
Interest on notes and loans.....	-	19,722	19,722	142,807
Loans—Note G, S.....	6,536	60,269	66,805	1,269,898
Lease rentals.....	427	772	1,199	-
Investment sale proceeds.....	7,035	16,763	23,798	-
Other.....	127,640	10	127,650	21,319
Due from pension trust funds—Note H.....	6,766	3	6,769	-
Due from primary government—Note H.....	-	-	-	155,684
Due from component units—Note H.....	23,848	624	24,472	64
Due from Federal government.....	2,816,363	7,575	2,823,938	132,386
Due from political subdivisions.....	8,043	7,966	16,009	-
Due from other governments.....	16	25,234	25,250	-
Inventory.....	109,225	206,791	316,016	31,320
Prepaid expenses.....	-	3,899	3,899	17,666
Other assets.....	9,055	25,029	34,084	92,958
Total current assets.....	13,043,652	4,037,665	17,081,317	6,690,704
Noncurrent assets:				
Restricted cash—Note D.....	-	398,739	398,739	916
Long-term investments—Note D, S.....	2,504,173	3,118,039	5,622,212	2,377,728
Receivables (net):				
Taxes—Note G.....	1,359,193	-	1,359,193	-
Loans—Note G, S.....	77,403	480,416	557,819	12,435,571
Due from primary government—Note H.....	-	-	-	15,000
Due from component units—Note H.....	201,117	-	201,117	-
Non-depreciable capital assets—Note E, S:				
Land.....	2,781,501	141,549	2,923,050	359,889
Construction in progress.....	3,673,634	30,227	3,703,861	1,024,200
Depreciable or amortizable capital assets—Note E, S:				
Land improvements.....	866,855	42,890	909,745	380,274
Buildings and building improvements.....	7,303,673	393,173	7,696,846	4,955,846
Machinery and equipment.....	1,313,749	195,115	1,508,864	1,323,132
Turnpike infrastructure.....	-	-	-	7,345,336
Highway infrastructure.....	26,030,954	-	26,030,954	-
Bridge infrastructure.....	12,877,413	-	12,877,413	-
Waterway infrastructure.....	26,415	-	26,415	-
Infrastructure-other.....	193,551	-	193,551	-
Library books.....	-	-	-	84,226
Intangible assets.....	384,962	20,082	405,044	31,415
Less: accumulated depreciation and amortization.....	(21,588,005)	(323,730)	(21,911,735)	(7,023,771)
Net depreciable or amortizable capital assets.....	27,409,567	327,530	27,737,097	7,096,458
Other assets.....	-	16,846	16,846	444,006
Total non-current assets.....	38,006,588	4,513,346	42,519,934	23,753,768
<b>TOTAL ASSETS.....</b>	<b>51,050,240</b>	<b>8,551,011</b>	<b>59,601,251</b>	<b>30,444,472</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note F, G, K, S.....</b>	<b>\$ 175,240</b>	<b>\$ 1,625</b>	<b>\$ 176,865</b>	<b>\$ 268,891</b>

- The notes to the financial statements are an integral part of this statement. -

# Commonwealth of Pennsylvania

## Statement of Net Position

June 30, 2014

(Amounts in thousands)

(Amounts in thousands)	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 6,197,821	\$ 783,445	\$ 6,981,266	\$ 553,822
Investment purchases payable.....	15,360	18,609	33,969	-
Tax refunds payable.....	1,183,836	-	1,183,836	-
Tuition benefits payable—Note F.....	-	233,298	233,298	-
Securities lending obligations.....	96,312	218,853	315,165	23,011
Internal balances—Note H.....	2,099	(1,620)	479	-
Due to pension trust funds—Note H.....	75,761	2,198	77,959	-
Due to primary government—Note H.....	-	-	-	24,408
Due to component units—Note H.....	157,586	23	157,609	64
Due to political subdivisions.....	1,403,899	13,217	1,417,116	9
Due to other governments.....	34,136	14,321	48,457	3
Interest payable.....	163,985	65,747	229,732	221,476
Unearned revenue.....	123,889	103,298	227,187	107,899
Notes payable—Note S.....	-	-	-	497,140
General obligation bonds payable—Note K.....	411,351	-	411,351	-
Bonds payable—Note S.....	-	-	-	54,695
Demand revenue bonds payable—Note F.....	-	76,320	76,320	-
Revenue bonds payable—Note F, S.....	-	241,440	241,440	316,695
Capital lease/installment purchase obligations.....	-	-	-	3,226
Self insurance liabilities—Note K, M.....	149,821	5,971	155,792	7,635
Compensated absence liability—Notes F, K, S.....	132,845	6,273	139,118	20,929
Insurance loss liability—Note F.....	-	232,674	232,674	-
Other financing obligations—Note J, S.....	8,730	-	8,730	3,660
Other postemployment benefit obligations—Note S.....	-	-	-	59,570
Pollution remediation obligations—Note K.....	18,283	-	18,283	-
Other liabilities—Note K.....	202,135	27,192	229,327	278,649
Total current liabilities.....	10,377,849	2,041,259	12,419,108	2,172,891
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	1,307,738	1,307,738	-
Due to primary government—Note H.....	-	-	-	201,117
Due to component units—Note H.....	15,000	-	15,000	-
Unearned revenue.....	-	-	-	4,916
Student loan auction rate security bonds payable—Note S.....	-	-	-	1,681,200
Demand revenue bonds payable—Note F.....	-	90,315	90,315	-
Insurance loss liability—Note F.....	-	1,345,768	1,345,768	-
Notes payable—Note S.....	-	-	-	5,250,428
General obligation bonds payable—Note K.....	12,263,578	-	12,263,578	-
Bonds payable—Note S.....	-	-	-	2,004,523
Revenue bonds payable—Note F, S.....	-	4,139,992	4,139,992	12,967,174
Capital lease/installment purchase obligations—Note K.....	117,961	-	117,961	81,177
Other financing obligations—Note J, S.....	306,890	-	306,890	39,772
Compensated absence liability—Note F, K, S.....	617,661	30,734	648,395	131,449
Self insurance liabilities—Note K, M.....	692,227	33,735	725,962	52,087
Other postemployment benefit obligations—Note I, S.....	2,497,694	89,159	2,586,853	955,147
Nonexchange financial guarantees—Note N.....	-	8,182	8,182	-
Pollution remediation obligations—Note K.....	195,560	-	195,560	-
Other liabilities—Note K.....	1,259,801	263	1,260,064	936,511
Total non-current liabilities.....	17,966,372	7,045,886	25,012,258	24,305,501
TOTAL LIABILITIES.....	28,344,221	9,087,145	37,431,366	26,478,392
<b>DEFERRED INFLOWS OF RESOURCES</b>				
TOTAL DEFERRED INFLOWS OF RESOURCES—Note S.....	-	-	-	317,844
<b>NET POSITION—Note C</b>				
Net investment in capital assets.....	28,344,818	489,357	28,834,175	1,806,029
Restricted for:				
Health-related programs.....	16,982	5,588	22,570	4,024
Transportation.....	298,733	134,364	433,097	-
Capital projects.....	-	-	-	3,562,440
Debt service.....	-	4,199	4,199	475,526
Unemployment/worker's compensation.....	528,908	-	528,908	-
Environmental and conservation programs.....	551,972	-	551,972	-
Economic development.....	-	333,821	333,821	77,293
Gaming licensing/regulation.....	651,467	-	651,467	-
Correctional industries and procurement.....	38,976	-	38,976	-
Emergency support.....	50,535	156,951	207,486	-
Higher education.....	-	155,638	155,638	1,131,663
Other purposes.....	57,614	147,076	204,690	604,324
Deficit.....	(7,658,746)	(1,961,503)	(9,620,249)	(3,744,172)
TOTAL NET POSITION.....	\$ 22,881,259	\$ (534,509)	\$ 22,346,750	\$ 3,917,127

Commonwealth of Pennsylvania

Statement of Activities

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
<b>Governmental activities:</b>								
Direction and supportive services.....	\$ 1,619,894	\$ 256,820	\$ 61,695	\$ -	\$ (1,301,379)	\$ -	\$ (1,301,379)	\$ -
Protection of persons and property.....	6,216,380	1,348,469	939,407	-	(3,928,504)	-	(3,928,504)	-
Public education.....	14,205,019	5,337	1,805,678	-	(12,394,004)	-	(12,394,004)	-
Health and human services.....	31,634,286	1,726,322	17,329,164	-	(12,578,800)	-	(12,578,800)	-
Economic development.....	1,005,570	6,373	366,913	-	(632,284)	-	(632,284)	-
Transportation.....	5,204,513	1,036,790	2,302,788	40,348	(1,824,587)	-	(1,824,587)	-
Recreation and cultural enrichment.....	522,662	338,954	54,300	1,913	(127,495)	-	(127,495)	-
Interest.....	494,177	-	-	-	(494,177)	-	(494,177)	-
<b>Total governmental activities.....</b>	<b>60,902,501</b>	<b>4,719,065</b>	<b>22,859,945</b>	<b>42,261</b>	<b>(33,281,230)</b>	<b>-</b>	<b>(33,281,230)</b>	<b>-</b>
<b>Business-type activities:</b>								
State lottery.....	3,720,574	3,786,090	109,833	-	-	175,349	175,349	-
State workers' insurance.....	267,991	207,208	(9,369)	-	-	(70,152)	(70,152)	-
Tuition payment.....	277,139	191,766	212,002	-	-	126,629	126,629	-
Unemployment compensation.....	3,189,395	2,900,976	707,526	-	-	419,107	419,107	-
Commonwealth financing.....	189,682	8,463	1,251	-	-	(179,968)	(179,968)	-
Liquor control.....	1,683,185	1,803,367	420	-	-	120,602	120,602	-
Economic development and other.....	47,212	25,305	26,557	270	-	4,920	4,920	-
<b>Total business-type activities.....</b>	<b>9,375,178</b>	<b>8,923,175</b>	<b>1,048,220</b>	<b>270</b>	<b>-</b>	<b>596,487</b>	<b>596,487</b>	<b>-</b>
Total primary government.....	\$ 70,277,679	\$ 13,642,240	\$ 23,908,165	\$ 42,531	(33,281,230)	596,487	(32,684,743)	-
<b>Component units:</b>								
Total component units.....	\$ 5,794,694	\$ 3,294,628	\$ 1,956,425	\$ 227,847	-	-	-	(315,794)
<b>General revenues:</b>								
Taxes:								
					10,817,073	-	10,817,073	-
					9,293,356	-	9,293,356	-
					4,314,093	-	4,314,093	-
					2,349,982	-	2,349,982	-
					1,404,277	-	1,404,277	-
					850,221	-	850,221	-
					968,436	-	968,436	-
					439,797	-	439,797	-
					1,499,745	-	1,499,745	-
					31,936,980	-	31,936,980	-
					36,311	-	36,311	-
					31,973,291	-	31,973,291	-
					(103,151)	103,151	-	-
					31,870,140	103,151	31,973,291	-
					(1,411,090)	699,638	(711,452)	(315,794)
					24,292,349	(1,234,147)	23,058,202	4,232,921
					\$ 22,881,259	\$ (534,509)	\$ 22,346,750	\$ 3,917,127

- The notes to the financial statements are an integral part of this statement. -



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Fund Financial Statements

**Commonwealth of Pennsylvania**

**Balance Sheet**

Governmental Funds

June 30, 2014

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>ASSETS</b>				
Cash—Note D.....	\$ 231,902	\$ 48,265	\$ 53,352	\$ 333,519
Cash with fiscal agents—Note D.....	13,755	-	-	13,755
Temporary investments—Note D.....	2,959,122	569,304	2,608,981	6,137,407
Long-term investments—Note D.....	228,785	622,736	1,633,604	2,485,125
Receivables (net):				
Taxes—Note G.....	3,226,128	222,488	25,700	3,474,316
Accounts.....	1,081,161	27,434	178,302	1,286,897
Investment income.....	288	58	5,930	6,276
Loans—Note G.....	83,939	-	1	83,940
Lease rentals.....	-	-	427	427
Investment sale proceeds.....	-	-	7,035	7,035
Other.....	84,400	19,035	24,205	127,640
Due from other funds—Note H.....	66,404	41,638	87,626	195,668
Due from pension trust funds—Note H.....	734	442	71	1,247
Due from component units—Note H.....	223,285	20	1,564	224,869
Due from Federal government.....	2,510,753	290,035	15,575	2,816,363
Due from political subdivisions.....	5,403	1,933	707	8,043
Advances to other funds—Note H.....	4,475	-	3,750	8,225
Other assets.....	3,000	-	-	3,000
<b>TOTAL ASSETS.....</b>	<b>\$ 10,723,534</b>	<b>\$ 1,843,388</b>	<b>\$ 4,646,830</b>	<b>\$ 17,213,752</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 5,077,679	\$ 535,790	\$ 539,390	\$ 6,152,859
Investment purchases payable.....	-	-	15,360	15,360
Tax refunds payable.....	1,181,317	2,519	-	1,183,836
Securities lending obligations.....	6,525	17,760	71,484	95,769
Due to other funds—Note H.....	108,553	60,826	54,586	223,965
Due to component units—Note H.....	2,256	11,851	158,477	172,584
Due to pension trust funds—Note H.....	68,783	5,388	1,495	75,666
Due to political subdivisions.....	1,265,705	59,730	78,464	1,403,899
Due to other governments.....	10,667	22,670	767	34,104
Unearned revenue—Note G.....	37,015	1,169	85,705	123,889
Advances from other funds—Note H.....	68,250	2,175	-	70,425
Other liabilities.....	829,009	-	-	829,009
<b>TOTAL LIABILITIES.....</b>	<b>8,655,759</b>	<b>719,878</b>	<b>1,005,728</b>	<b>10,381,365</b>
<b>Deferred inflows of resources:</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES - Note G..</b>	<b>2,633,813</b>	<b>658</b>	<b>181,139</b>	<b>2,815,610</b>
<b>Fund balances—Note C:</b>				
Nonspendable.....	265,403	-	-	265,403
Restricted.....	45	1,122,852	2,653,887	3,776,784
Committed.....	1,119,470	-	806,076	1,925,546
Unassigned deficit.....	(1,950,956)	-	-	(1,950,956)
<b>TOTAL FUND BALANCES.....</b>	<b>(566,038)</b>	<b>1,122,852</b>	<b>3,459,963</b>	<b>4,016,777</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 10,723,534</b>	<b>\$ 1,843,388</b>	<b>\$ 4,646,830</b>	<b>\$ 17,213,752</b>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Position**  
June 30, 2014

(Amounts in thousands)

The governmental funds balance sheet reports total fund balance for all governmental funds. In the governmental activities column in the Statement of Net Position, amounts are reported for all governmental funds and are adjusted to account for specific items that are treated differently on the Statement of Net Position than on the governmental funds balance sheet. Under the modified accrual basis of accounting, numerous governmental assets are deferred because they may not be "available," (that is, they are not current financial resources) and, similarly, numerous governmental liabilities are not reported because they are not due and payable until after fiscal year-end. The following reconciliation begins with total governmental funds fund balance and ends with total net position for governmental activities. It includes all of the adjustments made to "convert" governmental fund information in the fund financial statements to governmental activities information in the Statement of Net Position.

**Total Fund Balances--Governmental Funds..... \$ 4,016,777**

General capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds balance sheet. (Refer to Note E.)  
These assets consist of:

Land.....	\$ 2,781,501	
Land improvements.....	866,663	
Buildings and building improvements.....	7,297,469	
Machinery and equipment.....	1,216,575	
Infrastructure.....	39,128,333	
Intangible.....	384,962	
Construction in progress.....	3,673,634	
Accumulated depreciation.....	<u>(21,533,276)</u>	
Net general capital assets.....		33,815,861

Certain revenues are earned but not available at fiscal year-end and therefore are reported as deferred inflows of resources in the governmental funds balance sheet..... 2,815,610

Debt refunding losses are recognized as deferred outflows of resources in the governmental activities statement of net position..... 175,240

Other miscellaneous adjustments that are not reported in the governmental funds balance sheet but are reported in the statement of net position..... 6,013

Internal service funds are proprietary in nature and charge the costs of certain goods and services to governmental funds. Therefore, the assets and liabilities of the internal service funds are included in the statement of net position as governmental activities ..... 87,302

The statement of net position includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 93,888

Certain general long-term liabilities are not due and payable at fiscal year-end and therefore are not reported in the governmental funds balance sheet. (Refer to Note K.)  
These liabilities are:

Bonds payable.....	\$ (12,674,929)	
Accrued bond interest payable.....	(163,985)	
Capital lease and installment purchase obligations.....	(117,446)	
Compensated absence liability.....	(747,823)	
Self-insurance liabilities.....	(839,272)	
Other post employment benefits.....	(2,491,081)	
Other liabilities.....	<u>(1,094,896)</u>	
		<u>(18,129,432)</u>

**Total Net Position--Governmental Activities..... \$ 22,881,259**

- The notes to the financial statements are an integral part of this statement. -



**Commonwealth of Pennsylvania**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>REVENUES:</b>				
Taxes, net of refunds.....	\$ 27,277,301	\$ 2,349,983	\$ 2,069,167	\$ 31,696,451
Licenses and fees.....	537,242	873,949	801,031	2,212,222
Intergovernmental.....	19,995,975	1,948,619	598,864	22,543,458
Charges for sales and services.....	1,494,040	119,499	307,372	1,920,911
Investment income.....	34,319	73,655	162,633	270,607
Interest on notes and loans.....	715	-	808	1,523
Other.....	212,860	3,131	269,478	485,469
<b>TOTAL REVENUES .....</b>	<b>49,552,452</b>	<b>5,368,836</b>	<b>4,209,353</b>	<b>59,130,641</b>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	901,917	25,545	608,131	1,535,593
Protection of persons and property.....	4,423,816	781,151	548,909	5,753,876
Health and human services.....	31,250,318	-	523,166	31,773,484
Public education.....	13,482,539	316	626,089	14,108,944
Recreation and cultural enrichment.....	260,837	1,677	221,623	484,137
Economic development.....	458,631	955	541,021	1,000,607
Transportation.....	52,672	2,226,073	1,188,343	3,467,088
Capital outlay.....	103,579	2,228,241	504,266	2,836,086
Debt service:				
Principal retirement.....	9,240	-	752,105	761,345
Interest and fiscal charges.....	15,868	-	538,706	554,574
<b>TOTAL EXPENDITURES .....</b>	<b>50,959,417</b>	<b>5,263,958</b>	<b>6,052,359</b>	<b>62,275,734</b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES .....</b>	<b>(1,406,965)</b>	<b>104,878</b>	<b>(1,843,006)</b>	<b>(3,145,093)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	1,295,000	1,295,000
Refunding bonds issued.....	-	-	289,946	289,946
Premium on bonds/refunding bonds.....	-	-	203,088	203,088
Transfers in—Note H.....	485,641	21,092	1,449,509	1,956,242
Transfers out—Note H.....	(1,211,097)	(66,440)	(781,856)	(2,059,393)
Payment to refunded bond escrow agent.....	-	-	(336,896)	(336,896)
Capital lease and installment purchase obligations.....	715	-	-	715
<b>NET OTHER FINANCING SOURCES (USES) .....</b>	<b>(724,741)</b>	<b>(45,348)</b>	<b>2,118,791</b>	<b>1,348,702</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(2,131,706)</b>	<b>59,530</b>	<b>275,785</b>	<b>(1,796,391)</b>
<b>FUND BALANCES, JULY 1, 2013 (RESTATED)—Note B.....</b>	<b>1,565,668</b>	<b>1,063,322</b>	<b>3,184,178</b>	<b>5,813,168</b>
<b>FUND BALANCES, JUNE 30, 2014.....</b>	<b>\$ (566,038)</b>	<b>\$ 1,122,852</b>	<b>\$ 3,459,963</b>	<b>\$ 4,016,777</b>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**

**Balances-Governmental Funds to the Statements of Activities**

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic resources basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2014. Expenses such as depreciation and certain claims and judgments and revenues that may not be collected for several months after fiscal year-end are included in the government-wide statement but are not included in the governmental funds statement. This reconciliation reports all economic events during the fiscal year that appear on the government-wide Statement of Activities but are not included in the governmental funds statement.

**Net change in total fund balances of governmental funds..... \$ (1,796,391)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds; however, in the government-wide statements capital outlays are reported as increases in capital assets (not expenses) and the cost of general capital assets is allocated over their estimated useful lives and reported as depreciation expense. All depreciation is reported as part of functional program expenses. (Refer to Note E) The current amounts were:

Capital asset acquisitions .....	\$ 2,836,086	
Depreciation expense and losses on retirement or sale of assets.....	(1,742,650)	
Capital lease, installment purchase and related payments.....	7,775	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,101,211

Bond proceeds provide current financial resources to governmental funds; however, issuing bonds increases general long-term liabilities in the statement of net position. During the current fiscal year, proceeds were received from:

General obligation bonds including a premium of \$155,263.....	\$ (1,450,263)	
Refunding bonds, including a premium of \$47,825.....	(337,771)	
Capital lease and installment purchase acquisitions.....	(715)	
Total bond proceeds and capital lease and installment purchase acquisitions.....		(1,788,749)

Repayment of general long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces general long-term liabilities in the statement of net position. During the current fiscal year, these amounts consisted of:

Bond principal retirement.....	\$ 761,345	
Payments to refunded bond escrow agent.....	336,896	
Total bond principal retirement and payment to refunded bond escrow agent.....		1,098,241

Internal service funds charge the costs of certain goods and services to individual funds. The net income of the internal service funds is reported as part of governmental activities expenses.....	(6,045)
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Certain tax and other revenues due by fiscal year-end will not be collected for several months or years after fiscal year-end; they are not considered available revenues in the governmental funds, but they are reported as revenues in the statement of activities.....	456,895
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Certain expense adjustments are reported in the statement of activities because they are not due and payable and are funded with future economic resources rather than current available financial resources.....	(476,252)
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**Net change in governmental net position in the statement of activities..... \$ (1,411,090)**

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Proprietary Funds  
June 30, 2014

(Amounts in thousands)

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2013)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>ASSETS</b>								
Current assets:								
Cash—Note D.....	\$ 40,275	\$ 2,485	\$ 130	\$ 3,701	\$ 627,157	\$ 38,802	\$ 712,550	\$ 3,105
Cash with fiscal agents.....	713,686	-	-	-	-	1	713,687	-
Temporary investments—Note D.....	9,321	158,464	262,592	469,034	-	416,788	1,316,199	31,065
Receivables (net):								
Unemployment assessments.....	704,618	-	-	-	-	-	704,618	-
Accounts .....	105,175	70,387	25,551	-	-	1,118	202,231	1,543
Investment income.....	-	9,740	32	3,640	285	26	13,723	4
Interest on loans.....	17,300	-	-	-	1,815	607	19,722	-
Loans—Note G.....	-	-	-	-	18,419	41,850	60,269	-
Lease rental.....	-	-	-	-	-	772	772	-
Investment sale proceeds.....	-	-	-	16,763	-	-	16,763	-
Other .....	-	-	-	-	-	10	10	-
Due from other funds—Note H.....	2,669	-	26	-	4,153	14,678	21,526	25,450
Due from pension trust funds—Note H.....	3	-	-	-	-	-	3	5,519
Due from component units—Note H.....	614	-	-	-	-	10	624	96
Due from Federal government.....	2,087	-	5,297	-	-	191	7,575	-
Due from political subdivisions.....	7,966	-	-	-	-	-	7,966	-
Due from other governments .....	25,198	-	-	-	-	36	25,234	16
Inventory.....	-	-	-	-	-	206,791	206,791	15,337
Prepaid expenses.....	-	-	-	-	-	3,899	3,899	-
Other assets.....	-	6,025	18,567	-	-	437	25,029	45
Total current assets .....	1,628,912	247,101	312,195	493,138	651,829	726,016	4,059,191	82,180
Noncurrent assets:								
Restricted cash.....	394,277	-	-	-	-	4,462	398,739	-
Long-term investments—Note D.....	-	1,380,184	63,493	1,351,052	-	323,310	3,118,039	19,048
Receivables (net):								
Loans—Note G.....	-	-	-	-	284,034	196,382	480,416	-
Non-depreciable capital assets—Note E:								
Land.....	-	-	-	-	-	141,549	141,549	-
Construction in progress.....	-	-	-	-	-	30,227	30,227	-
Depreciable or amortizable capital assets—Note E:								
Land improvements.....	-	-	-	-	-	42,890	42,890	192
Buildings and building improvements.....	-	-	-	-	-	393,173	393,173	6,204
Machinery and equipment.....	-	1,512	76,521	-	-	117,082	195,115	97,174
Intangible assets.....	-	-	-	-	-	20,082	20,082	-
Less: accumulated depreciation and amortization.....	-	(1,512)	(50,292)	-	-	(271,926)	(323,730)	(54,729)
Net depreciable or amortizable capital assets.....	-	-	26,229	-	-	301,301	327,530	48,841
Other assets .....	-	-	-	-	-	16,846	16,846	-
Total noncurrent assets .....	394,277	1,380,184	89,722	1,351,052	284,034	1,014,077	4,513,346	67,889
<b>TOTAL ASSETS.....</b>	<b>2,023,189</b>	<b>1,627,285</b>	<b>401,917</b>	<b>1,844,190</b>	<b>935,863</b>	<b>1,740,093</b>	<b>8,572,537</b>	<b>150,069</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>								
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note G:..</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,625</b>	<b>1,625</b>	<b>-</b>

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Proprietary Funds  
June 30, 2014

(Amounts in thousands)

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2013)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and accrued liabilities.....	\$ 96,696	\$ 9,651	\$ 377,824	\$ 2,864	\$ -	\$ 296,410	\$ 783,445	\$ 44,956
Investment purchases payable.....	-	-	-	18,609	-	-	18,609	-
Tuition benefits payable—Note F.....	-	-	-	233,298	-	-	233,298	-
Securities lending obligations.....	-	81,883	1,811	125,937	-	9,222	218,853	543
Due to other funds—Note H.....	2,204	-	1,494	-	453	10,539	14,690	4,552
Due to pension trust funds—Note H.....	-	-	112	-	-	2,086	2,198	95
Due to component units—Note H.....	-	-	-	-	-	23	23	2
Due to political subdivisions.....	-	-	13,197	-	-	20	13,217	-
Due to other governments.....	13,324	-	-	-	-	997	14,321	32
Interest payable.....	58,251	-	-	-	7,042	454	65,747	-
Unearned revenue.....	-	89,934	9,594	-	-	3,770	103,298	-
Demand revenue bonds payable—Note F.....	76,320	-	-	-	-	-	76,320	-
Revenue bonds payable—Note F.....	174,860	-	-	-	63,250	3,330	241,440	-
Self insurance liabilities—Note M.....	1	314	438	-	-	5,218	5,971	418
Compensated absences—Note F,K.....	-	391	520	-	-	5,362	6,273	456
Insurance loss liability—Note F.....	-	232,674	-	-	-	-	232,674	-
Advances from other funds—Note H.....	-	2,216	-	-	-	3,000	5,216	-
Other liabilities.....	-	27,163	-	-	-	29	27,192	-
Total current liabilities.....	421,656	444,226	404,990	380,708	70,745	340,460	2,062,785	51,054
Noncurrent liabilities:								
Tuition benefits payable—Note F.....	-	-	-	1,307,738	-	-	1,307,738	-
Demand revenue bonds payable—Note F.....	90,315	-	-	-	-	-	90,315	-
Insurance loss liability—Note F.....	-	1,345,109	-	-	-	659	1,345,768	-
Revenue bonds payable—Note F.....	2,521,942	-	-	-	1,592,960	25,090	4,139,992	-
Installment purchase obligation—Note K.....	-	-	-	-	-	-	-	515
Compensated absences—Note F,K.....	-	1,907	2,541	106	-	26,180	30,734	2,227
Self insurance liabilities—Note M.....	4	1,777	2,476	-	-	29,478	33,735	2,358
Other postemployment benefit obligations—Note I.....	-	6,575	8,123	-	-	74,461	89,159	6,613
Nonexchange financial guarantees—Note N.....	-	-	-	-	8,182	-	8,182	-
Other liabilities.....	-	-	-	-	-	263	263	-
Total noncurrent liabilities.....	2,612,261	1,355,368	13,140	1,307,844	1,601,142	156,131	7,045,886	11,713
<b>TOTAL LIABILITIES.....</b>	<b>3,033,917</b>	<b>1,799,594</b>	<b>418,130</b>	<b>1,688,552</b>	<b>1,671,887</b>	<b>496,591</b>	<b>9,108,671</b>	<b>62,767</b>
<b>NET POSITION—Note C</b>								
Net investment in capital assets.....	-	-	26,229	-	-	463,128	489,357	48,326
Restricted for:								
Health-related programs.....	-	-	-	-	-	5,588	5,588	-
Transportation.....	-	-	-	-	-	134,364	134,364	-
Debt service.....	-	-	-	-	-	4,199	4,199	-
Economic development.....	-	-	-	-	-	333,821	333,821	-
Correctional industries and procurement.....	-	-	-	-	-	-	-	38,976
Emergency support.....	-	-	-	-	-	156,951	156,951	-
Higher Education.....	-	-	-	155,638	-	-	155,638	-
Other purposes.....	-	-	-	-	-	147,076	147,076	-
Deficit.....	(1,010,728)	(172,309)	(42,442)	-	(736,024)	-	(1,961,503)	-
<b>TOTAL NET POSITION.....</b>	<b>\$ (1,010,728)</b>	<b>\$ (172,309)</b>	<b>\$ (16,213)</b>	<b>\$ 155,638</b>	<b>\$ (736,024)</b>	<b>\$ 1,245,127</b>	<b>\$ (534,509)</b>	<b>\$ 87,302</b>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Revenues, Expenses and Changes in Net Position**

Proprietary Funds  
For the Fiscal Year Ended June 30 2014

(Amounts in thousands)

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2013)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>OPERATING REVENUES:</b>								
Sales and services.....	\$ 2,900,976	\$ 207,039	\$ 3,800,883	\$ 191,766	\$ 474	\$ 1,820,829	\$ 8,921,967	\$ 88,882
Interest on loans.....	-	-	-	-	7,989	6,026	14,015	-
Other.....	-	169	3	-	-	177	349	-
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>2,900,976</b>	<b>207,208</b>	<b>3,800,886</b>	<b>191,766</b>	<b>8,463</b>	<b>1,827,032</b>	<b>8,936,331</b>	<b>88,882</b>
Provision for uncollectible accounts.....	-	(4,744)	-	-	615	(1,564)	(5,693)	-
<b>NET OPERATING REVENUES.....</b>	<b>2,900,976</b>	<b>202,464</b>	<b>3,800,886</b>	<b>191,766</b>	<b>9,078</b>	<b>1,825,468</b>	<b>8,930,638</b>	<b>88,882</b>
<b>OPERATING EXPENSES:</b>								
Cost of sales and services.....	3,145,347	259,305	3,606,376	272,753	103,735	1,686,338	9,073,854	85,247
Depreciation and amortization.....	-	-	3,522	-	-	32,481	36,003	10,342
Other.....	-	-	110,633	-	1,518	4,606	116,757	-
<b>TOTAL OPERATING EXPENSES .....</b>	<b>3,145,347</b>	<b>259,305</b>	<b>3,720,531</b>	<b>272,753</b>	<b>105,253</b>	<b>1,723,425</b>	<b>9,226,614</b>	<b>95,589</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(244,371)</b>	<b>(56,841)</b>	<b>80,355</b>	<b>(80,987)</b>	<b>(96,175)</b>	<b>102,043</b>	<b>(295,976)</b>	<b>(6,707)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment income.....	413	(9,369)	6,841	212,002	1,251	26,727	237,865	1,946
Interest expense.....	(44,048)	-	-	-	(85,044)	-	(129,092)	-
Investment expense.....	-	(3,942)	-	(4,386)	-	-	(8,328)	-
Grants and other revenues.....	707,113	-	88,196	-	-	1,890	797,199	-
Other expenses.....	-	-	(43)	-	-	(5,408)	(5,451)	(1,284)
<b>NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>663,478</b>	<b>(13,311)</b>	<b>94,994</b>	<b>207,616</b>	<b>(83,793)</b>	<b>23,209</b>	<b>892,193</b>	<b>662</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS:.....</b>	<b>419,107</b>	<b>(70,152)</b>	<b>175,349</b>	<b>126,629</b>	<b>(179,968)</b>	<b>125,252</b>	<b>596,217</b>	<b>(6,045)</b>
<b>TRANSFERS AND CONTRIBUTIONS:</b>								
Capital contributions.....	-	-	-	-	-	270	270	-
Transfers in—Note H.....	-	-	166,500	-	225,843	56,238	448,581	-
Transfers out—Note H.....	(40,000)	-	(222,956)	-	-	(82,474)	(345,430)	-
<b>TRANSFERS AND CONTRIBUTIONS, NET.....</b>	<b>(40,000)</b>	<b>-</b>	<b>(56,456)</b>	<b>-</b>	<b>225,843</b>	<b>(25,966)</b>	<b>103,421</b>	<b>-</b>
<b>INCREASE/(DECREASE) IN NET POSITION.....</b>	<b>379,107</b>	<b>(70,152)</b>	<b>118,893</b>	<b>126,629</b>	<b>45,875</b>	<b>99,286</b>	<b>699,638</b>	<b>(6,045)</b>
<b>TOTAL NET POSITION, JULY 1, 2013 (RESTATED)-Note B.</b>	<b>(1,389,835)</b>	<b>(102,157)</b>	<b>(135,106)</b>	<b>29,009</b>	<b>(781,899)</b>	<b>1,145,841</b>	<b>(1,234,147)</b>	<b>93,347</b>
<b>TOTAL NET POSITION, JUNE 30, 2014.....</b>	<b>\$ (1,010,728)</b>	<b>\$ (172,309)</b>	<b>\$ (16,213)</b>	<b>\$ 155,638</b>	<b>\$ (736,024)</b>	<b>\$ 1,245,127</b>	<b>\$ (534,509)</b>	<b>\$ 87,302</b>

- The notes to the financial statements are an integral part of this statement. -

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**Commonwealth of Pennsylvania**  
**Statement of Cash Flows**  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2013)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Receipts from employers.....	\$ 3,016,878	\$ 210,953	\$ -	\$ -	\$ -	\$ -	\$ 3,227,831	\$ -
Receipts from customers and participants.....	-	-	3,802,499	191,766	-	1,817,168	5,811,433	91,883
Receipts from borrowers for fees and loan repayments.....	-	-	-	-	49,175	58,902	108,077	-
Receipt of premiums.....	-	-	-	-	-	5,217	5,217	-
Payments to programs for the elderly.....	-	-	(1,078,931)	-	-	-	(1,078,931)	-
Payments to prize winners.....	-	-	(2,367,097)	-	-	-	(2,367,097)	-
Payments to participants.....	-	-	-	(207,019)	-	-	(207,019)	-
Payments to claimants.....	(3,170,988)	(204,851)	-	-	-	(1,336)	(3,377,175)	-
Payments to borrowers.....	-	-	-	-	(21,259)	(51,633)	(72,892)	-
Payments for vendors, employees and other costs.....	-	(64,007)	(368,924)	(5,875)	(3,085)	(1,668,929)	(2,110,820)	(80,886)
Payments of grants and loan guarantees.....	-	-	-	-	(101,653)	-	(101,653)	-
Other receipts.....	-	169	3	-	-	186	358	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>(154,110)</b>	<b>(57,736)</b>	<b>(12,450)</b>	<b>(21,128)</b>	<b>(76,822)</b>	<b>159,575</b>	<b>(162,671)</b>	<b>10,997</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>								
Net borrowings under advances from other funds.....	-	14	-	-	-	-	14	-
Principal payments on other non-capital debt.....	(255,665)	-	-	-	(55,870)	-	(311,535)	-
Interest payments on other non-capital debt.....	(141,892)	-	-	-	(92,017)	-	(233,909)	-
Transfers in.....	-	-	166,500	-	221,690	2,622	390,812	-
Transfers out.....	(40,000)	-	(222,956)	-	-	(82,567)	(345,523)	-
Grants and other revenues.....	748,376	-	88,045	-	-	2,094	838,515	-
Other payments for non-capital financing uses.....	(850)	-	-	-	-	(3,845)	(4,695)	-
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>309,969</b>	<b>14</b>	<b>31,589</b>	<b>-</b>	<b>73,803</b>	<b>(81,696)</b>	<b>333,679</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>								
Acquisition and construction of capital assets.....	-	-	(9,992)	-	-	(38,725)	(48,717)	(17,955)
Disposition of capital assets.....	-	-	-	-	-	4	4	-
Capital lease/installment purchase payments.....	-	-	-	-	-	-	-	(100)
Principal payments on other capital debt.....	-	-	-	-	-	(3,380)	(3,380)	-
Interest payments on other capital debt.....	-	-	-	-	-	(1,454)	(1,454)	-
Transfers in.....	-	-	-	-	-	47,856	47,856	-
Capital contributions.....	-	-	-	-	-	300	300	-
Other receipts for capital and related financing activities.....	-	-	-	-	-	42	42	-
Other payments for capital and related financing uses.....	-	-	-	-	-	(6,606)	(6,606)	-
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>-</b>	<b>(9,992)</b>	<b>-</b>	<b>-</b>	<b>(1,963)</b>	<b>(11,955)</b>	<b>(18,055)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Purchase of investments.....	(12,278)	(1,366,378)	(1,571,128)	(2,596,793)	-	(1,488,883)	(7,035,460)	(438,819)
Sales and maturities of investments.....	7,723	1,359,210	1,559,990	2,593,581	-	1,422,754	6,943,258	433,738
Investment income.....	413	68,548	1,896	28,850	966	7,212	107,885	461
Investment expense.....	-	(3,860)	-	(4,386)	-	-	(8,246)	-
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>(4,142)</b>	<b>57,520</b>	<b>(9,242)</b>	<b>21,252</b>	<b>966</b>	<b>(58,917)</b>	<b>7,437</b>	<b>(4,620)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>151,717</b>	<b>(202)</b>	<b>(95)</b>	<b>124</b>	<b>(2,053)</b>	<b>16,999</b>	<b>166,490</b>	<b>(11,678)</b>
<b>CASH AT JULY 1, 2013.....</b>	<b>996,521</b>	<b>2,687</b>	<b>225</b>	<b>3,577</b>	<b>629,210</b>	<b>26,266</b>	<b>1,658,486</b>	<b>14,783</b>
<b>CASH AT JUNE 30, 2014 (including \$398,739 included in restricted assets).....</b>	<b>\$ 1,148,238</b>	<b>\$ 2,485</b>	<b>\$ 130</b>	<b>\$ 3,701</b>	<b>\$ 627,157</b>	<b>\$ 43,265</b>	<b>\$ 1,824,976</b>	<b>\$ 3,105</b>



**Commonwealth of Pennsylvania**  
**Statement of Cash Flows**  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2013)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>								
Operating income (loss).....	\$ (244,371)	\$ (56,841)	\$ 80,355	\$ (80,987)	\$ (96,175)	\$ 102,043	\$ (295,976)	\$ (6,707)
Depreciation and amortization of capital assets.....	-	-	3,522	-	-	32,481	36,003	10,342
Amortization of other assets.....	-	-	-	-	-	4,606	4,606	-
Provision for uncollectible accounts.....	-	4,744	-	-	(615)	1,564	5,693	-
Changes in assets, liabilities, deferred outflows and deferred inflows:								
Unemployment assessments receivable.....	117,562	-	-	-	-	-	117,562	-
Accounts receivable.....	(7,149)	(12,405)	1,357	-	-	72	(18,125)	501
Interest on loans receivable.....	(343)	-	-	-	-	126	(217)	-
Loans receivable.....	-	-	-	-	20,971	1,079	22,050	-
Lease rental receivable.....	-	-	-	-	-	343	343	-
Other receivables.....	-	-	-	-	-	1	1	-
Due from other funds.....	1,281	-	978	-	-	797	3,056	(7,809)
Due from pension trust funds.....	4	-	-	-	-	-	4	(842)
Due from component units.....	(109)	-	-	-	-	17	(92)	126
Due from political subdivisions.....	2,151	-	-	-	-	-	2,151	67
Due from other governments.....	9,780	-	-	-	-	(9)	9,771	-
Inventory.....	-	-	-	-	-	(8,161)	(8,161)	2,254
Prepaid expenses.....	-	-	-	-	-	(492)	(492)	-
Other current and noncurrent assets.....	-	-	(1,082)	-	-	(437)	(1,519)	(29)
Accounts payable and accrued liabilities.....	(32,446)	995	(83,653)	(115)	-	10,971	(104,248)	12,857
Tuition benefits payable.....	-	-	-	59,980	-	-	59,980	-
Due to other funds.....	856	-	(1,384)	-	38	3,583	3,093	(936)
Due to pension trust funds.....	-	-	37	-	-	553	590	33
Due to component units.....	(3)	-	-	-	-	(29)	(32)	-
Due to political subdivisions.....	-	-	5,849	-	-	(21)	5,828	-
Due to other governments.....	(1,328)	-	(20,296)	-	-	52	(21,572)	6
Unearned revenue.....	-	9,162	208	-	-	242	9,612	-
Self insurance liabilities.....	5	21	598	-	-	(438)	186	55
Compensated absences.....	-	(254)	35	(6)	-	421	196	129
Insurance loss liability.....	-	(9,492)	-	-	-	394	(9,098)	-
Other postemployment benefit obligations.....	-	818	1,026	-	-	9,815	11,659	950
Nonexchange financial guarantees.....	-	-	-	-	(1,041)	-	(1,041)	-
Other current and noncurrent liabilities.....	-	5,516	-	-	-	2	5,518	-
<b>Total Adjustments.....</b>	<b>90,261</b>	<b>(895)</b>	<b>(92,805)</b>	<b>59,859</b>	<b>19,353</b>	<b>57,532</b>	<b>133,305</b>	<b>17,704</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ (154,110)</b>	<b>\$ (57,736)</b>	<b>\$ (12,450)</b>	<b>\$ (21,128)</b>	<b>\$ (76,822)</b>	<b>\$ 159,575</b>	<b>\$ (162,671)</b>	<b>\$ 10,997</b>
Increase (decrease) in fair value of investments during the fiscal year.....	\$ -	\$ (77,661)	\$ 4,949	\$ 182,688	\$ -	\$ 19,517	\$ 129,493	\$ 1,486
Increase in investments from changes in securities lending obligations.....	-	31	251	66,407	-	1,266	67,955	75
Capital asset disposals by scrapping.....	-	-	(43)	-	-	-	(43)	(1,284)
Amortization of bond premium/discount (net).....	(72,824)	-	-	-	(1,847)	-	(74,671)	-

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Fiduciary Net Position**  
Fiduciary Funds  
June 30, 2014

(Amounts in thousands)

		Investment Trust Fund	Private Purpose Trust Fund	
	Pension (and Other Employee Benefit) Trust Funds	INVEST Program for Local Governments (December 31, 2013)	Tuition Account Investment Program	Agency Funds
<b>ASSETS</b>				
Cash—Note D.....	\$ 207,805	\$ -	\$ 2,721	\$ 15,652
Cash with fiscal agents.....	-	-	-	31,164
Temporary investments—Note D.....	61,649	583,100	-	743,021
Long-term investments—Note D.....	248,552	-	1,685,567	3,129,383
Short-term funds—Note D.....	5,504,816	-	-	-
Corporate obligations—Note D.....	2,240,358	-	-	-
Collective trust funds—Note D.....	13,045,192	-	-	-
Real estate—Note D.....	10,343,608	-	-	-
Alternative—Note D.....	21,383,495	-	-	-
Securities lending collateral—Note D.....	818,830	-	-	-
Asset-backed securities—Note D.....	904,532	-	-	-
Commercial paper—Note D.....	9,982	-	-	-
Domestic equities—Note D.....	13,290,664	-	-	-
International equities—Note D.....	8,421,856	-	-	-
International private debt securities—Note D.....	309,766	-	-	-
International public debt securities—Note D.....	1,199,160	-	-	-
Mortgage-backed securities—Note D.....	1,935,796	-	-	-
Private placements—Note D.....	439,584	-	-	-
Repurchase agreements—Note D.....	98,225	-	-	-
U.S. Treasury obligations—Note D.....	3,441,227	-	-	-
U.S. government agency debt securities—Note D.....	506,593	-	-	-
Receivables (net):				
Taxes—Note G.....	-	-	-	32,119
Accounts.....	-	-	12	39,780
Investment income.....	293,095	-	-	13,259
Interest on notes and loans.....	502	20	-	-
Pension contributions.....	940,577	-	-	-
Investment sale proceeds.....	298,581	114,112	-	4,364
Other.....	25,946	-	-	-
Due from other funds—Note H.....	9,876	-	-	-
Due from pension trust funds—Note H.....	133	-	-	-
Due from component units—Note H.....	25,234	-	-	-
Due from political subdivisions.....	18,255	-	-	-
Due from other governments.....	16,386	-	-	-
Advances to other funds—Note H.....	-	-	-	67,500
Depreciable or amortizable capital assets:				
Machinery and equipment.....	12,595	-	-	-
Intangible assets.....	34,336	-	-	-
Less: accumulated depreciation and amortization.....	(24,080)	-	-	-
Net depreciable or amortizable capital assets.....	22,851	-	-	-
Other assets.....	-	-	-	4,129,795
<b>TOTAL ASSETS.....</b>	<b>86,063,126</b>	<b>697,232</b>	<b>1,688,300</b>	<b>8,206,037</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	154,201	13	1,100	179,621
Investment purchases payable.....	858,991	114,043	680	8,358
Securities lending obligations.....	879,426	-	-	10,938
Due to other funds—Note H.....	489	-	-	-
Due to pension trust funds—Note H.....	282	-	-	-
Due to political subdivisions.....	-	-	-	414,476
Due to other governments.....	-	-	-	5
Interest payable.....	-	82	-	-
Compensated absence liability.....	-	-	-	425
Self insurance liabilities—Note M.....	-	-	-	358
Other postemployment benefit obligations—Note I.....	-	-	-	1,385
Other liabilities.....	575,600	-	-	7,590,471
<b>TOTAL LIABILITIES.....</b>	<b>2,468,989</b>	<b>114,138</b>	<b>1,780</b>	<b>8,206,037</b>
<b>NET POSITION</b>				
Held in trust for:				
Pension benefits.....	80,374,271	-	-	-
Postemployment healthcare benefits.....	456,359	-	-	-
Employee salary deferrals.....	2,763,507	-	-	-
INVEST Program participants.....	-	583,094	-	-
Tuition Account Investment Program participants.....	-	-	1,686,520	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 83,594,137</b>	<b>\$ 583,094</b>	<b>\$ 1,686,520</b>	<b>\$ -</b>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Changes in Fiduciary Net Position**  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2013)	Private Purpose Trust Fund Tuition Account Investment Program
<b>ADDITIONS:</b>			
Pension contributions:			
Employer.....	\$ 3,682,622	\$ -	\$ -
Employee.....	1,703,642	-	-
Transfer in from other plans.....	59,527	-	-
Total contributions.....	<u>5,445,791</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation in fair value of investments.....	9,810,721	-	188,150
Interest income.....	387,073	641	32,647
Dividend income.....	493,022	-	-
Rental and other income.....	1,117,068	-	-
Total investment activity income.....	<u>11,807,884</u>	<u>641</u>	<u>220,797</u>
Less: investment expenses			
Investment activity expense.....	(666,691)	(337)	-
Net investment earnings.....	<u>11,141,193</u>	<u>304</u>	<u>220,797</u>
Securities lending activities:			
Income.....	24,193	-	-
Expenses.....	(1,898)	-	-
Total securities lending income.....	<u>22,295</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>11,163,488</u>	<u>304</u>	<u>220,797</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares issued in lieu of cash distributions.....	-	277	-
Shares purchased/redeemed (net).....	-	11,368	130,724
Net increase in net position from share transactions.....	<u>-</u>	<u>11,645</u>	<u>130,724</u>
<b>TOTAL ADDITIONS.....</b>	<u>16,609,279</u>	<u>11,949</u>	<u>351,521</u>
<b>DEDUCTIONS:</b>			
Benefit payments.....	10,034,160	-	-
Refunds of contributions.....	33,432	-	-
Transfers to other plans.....	100,569	-	-
Administrative expenses.....	88,760	-	5,537
Other expenses.....	3,536	-	-
Distributions to participants.....	-	304	-
<b>TOTAL DEDUCTIONS.....</b>	<u>10,260,457</u>	<u>304</u>	<u>5,537</u>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>			
Pension benefits.....	5,969,375	-	-
Postemployment healthcare benefits.....	47,653	-	-
Employee salary deferrals.....	331,794	-	-
INVEST program participants.....	-	11,645	-
Tuition Account Investment Program participants.....	-	-	345,984
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST...</b>	<u>6,348,822</u>	<u>11,645</u>	<u>345,984</u>
<b>Net position, July 1, 2013.....</b>	<u>77,245,315</u>	<u>571,449</u>	<u>1,340,536</u>
<b>Net position, June 30, 2014.....</b>	<u>\$ 83,594,137</u>	<u>\$ 583,094</u>	<u>\$ 1,686,520</u>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Discretely Presented Component Units  
June 30, 2014

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2014)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
<b>ASSETS</b>							
Current assets:							
Cash—Note S.....	\$ 848,189	\$ 480,958	\$ 87,999	\$ 41,006	\$ 185,834	\$ 54,694	\$ 1,698,680
Temporary investments—Note S.....	199,130	7,531	936,897	1,047,278	517,354	238,525	2,946,715
Receivables (net):							
Accounts .....	41,721	-	35,498	-	96,435	1,848	175,502
Investment income.....	4,270	1,347	7	-	-	81	5,705
Interest on notes and loans.....	-	34,545	104,302	3,419	-	541	142,807
Loans—Note S.....	-	100,393	947,152	174,448	8,714	39,191	1,269,898
Other .....	-	-	-	-	20,214	1,105	21,319
Due from primary government—Note H.....	9,811	-	2	18,034	400	127,437	155,684
Due from component units—Note H.....	-	3	-	61	-	-	64
Due from Federal government.....	-	-	96,085	2,234	25,406	8,661	132,386
Inventory.....	20,158	-	-	-	10,549	613	31,320
Prepaid expenses.....	-	-	6,080	-	10,394	1,192	17,666
Other assets.....	-	485	90,768	-	1,705	-	92,958
Total current assets .....	<u>1,123,279</u>	<u>625,262</u>	<u>2,304,790</u>	<u>1,286,480</u>	<u>877,005</u>	<u>473,888</u>	<u>6,690,704</u>
Noncurrent assets:							
Restricted cash.....	-	-	-	-	25	891	916
Long-term investments—Note S.....	743,407	233,985	-	-	1,371,121	29,215	2,377,728
Receivables (net):							
Loans—Note S.....	-	3,594,495	6,245,917	2,278,227	32,748	284,184	12,435,571
Due from primary government—Note H.....	-	-	-	15,000	-	-	15,000
Non-depreciable capital assets—Note S							
Land.....	289,900	2,454	2,946	-	63,434	1,155	359,889
Construction in progress.....	790,396	-	-	-	230,998	2,806	1,024,200
Depreciable or amortizable capital assets—Note S							
Land improvements.....	114,009	-	-	-	264,498	1,767	380,274
Buildings and building improvements.....	905,235	31,185	71,993	-	3,187,354	760,079	4,955,846
Machinery and equipment.....	570,115	10,226	31,618	-	539,662	171,511	1,323,132
Turnpike infrastructure.....	7,345,336	-	-	-	-	-	7,345,336
Library books.....	-	-	-	-	83,690	536	84,226
Intangible assets.....	-	-	31,382	-	-	33	31,415
Less: accumulated depreciation and amortization.....	<u>(5,100,630)</u>	<u>(12,649)</u>	<u>(76,300)</u>	<u>-</u>	<u>(1,574,349)</u>	<u>(259,843)</u>	<u>(7,023,771)</u>
Net depreciable or amortizable capital assets.....	<u>3,834,065</u>	<u>28,762</u>	<u>58,693</u>	<u>-</u>	<u>2,500,855</u>	<u>674,083</u>	<u>7,096,458</u>
Other assets.....	123,055	150,565	-	-	151,355	19,031	444,006
Total noncurrent assets .....	<u>5,780,823</u>	<u>4,010,261</u>	<u>6,307,556</u>	<u>2,293,227</u>	<u>4,350,536</u>	<u>1,011,365</u>	<u>23,753,768</u>
<b>TOTAL ASSETS.....</b>	<u>6,904,102</u>	<u>4,635,523</u>	<u>8,612,346</u>	<u>3,579,707</u>	<u>5,227,541</u>	<u>1,485,253</u>	<u>30,444,472</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note S...</b>	<u>213,878</u>	<u>42,108</u>	<u>2,728</u>	<u>-</u>	<u>6,527</u>	<u>3,650</u>	<u>268,891</u>

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Discretely Presented Component Units  
June 30, 2014

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2014)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and accrued liabilities.....	139,302	16,583	168,643	482	217,505	11,307	553,822
Securities lending obligations.....	-	-	-	22,869	-	142	23,011
Due to primary government—Note H.....	-	24	176	14,512	1,120	8,576	24,408
Due to component units—Note H.....	-	61	-	3	-	-	64
Due to political subdivisions.....	-	-	-	-	-	9	9
Due to other governments.....	-	-	-	-	-	3	3
Interest payable.....	178,745	30,455	6,250	-	-	6,026	221,476
Unearned revenue.....	55,217	-	49	-	50,990	1,643	107,899
Notes payable—Note S.....	-	2,000	444,140	51,000	-	-	497,140
Bonds payable—Note S.....	-	-	-	-	54,695	-	54,695
Revenue bonds payable—Note S.....	184,675	109,340	-	1,575	-	21,105	316,695
Capital lease/installment purchase obligations.....	-	-	-	-	3,226	-	3,226
Self insurance liabilities.....	2,859	-	-	-	4,776	-	7,635
Compensated absences.....	9,121	-	-	78	11,355	375	20,929
Other financing obligations—Note S.....	-	-	3,660	-	-	-	3,660
Other postemployment benefit obligations—Note S.....	-	-	-	-	59,295	275	59,570
Other liabilities.....	-	70,382	90,768	-	117,298	201	278,649
Total current liabilities.....	569,919	228,845	713,686	90,519	520,260	49,662	2,172,891
Non-current liabilities:							
Due to primary government—Note H.....	-	-	-	201,117	-	-	201,117
Unearned revenue.....	-	-	-	-	4,916	-	4,916
Student loan auction rate security bonds payable—Note S.....	-	-	1,681,200	-	-	-	1,681,200
Notes payable—Note S.....	-	22,000	4,940,357	-	288,071	-	5,250,428
Bonds payable—Note S.....	-	-	-	-	2,004,523	-	2,004,523
Revenue bonds payable—Note S.....	9,523,230	3,206,673	-	-	-	237,271	12,967,174
Capital lease/installment purchase obligations.....	-	-	-	-	81,177	-	81,177
Other financing obligations—Note S.....	-	-	39,772	-	-	-	39,772
Compensated absences.....	7,462	-	18,404	383	103,355	1,845	131,449
Self insurance liabilities.....	35,153	-	-	-	16,934	-	52,087
Other postemployment benefit obligations—Note S.....	-	-	-	659	947,776	6,712	955,147
Other liabilities.....	158,111	469,840	-	-	169,911	138,649	936,511
Total non-current liabilities.....	9,723,956	3,698,513	6,679,733	202,159	3,616,663	384,477	24,305,501
<b>TOTAL LIABILITIES.....</b>	<b>10,293,875</b>	<b>3,927,358</b>	<b>7,393,419</b>	<b>292,678</b>	<b>4,136,923</b>	<b>434,139</b>	<b>26,478,392</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note S....</b>	<b>124,560</b>	<b>-</b>	<b>192,952</b>	<b>-</b>	<b>332</b>	<b>-</b>	<b>317,844</b>
<b>NET POSITION</b>							
Net investment in capital assets.....	372,750	11,216	61,639	-	684,396	676,028	1,806,029
Restricted for:							
Health-related programs.....	-	-	-	-	-	4,024	4,024
Capital projects.....	237,042	-	-	3,287,029	38,369	-	3,562,440
Debt service.....	36,801	165,564	216,916	-	-	56,245	475,526
Economic development.....	-	-	-	-	-	77,293	77,293
Higher education.....	-	-	750,148	-	374,048	7,467	1,131,663
Other purposes.....	-	573,493	-	-	-	30,831	604,324
Unrestricted/(Deficit).....	(3,947,048)	-	-	-	-	202,876	(3,744,172)
<b>TOTAL NET POSITION.....</b>	<b>\$ (3,300,455)</b>	<b>\$ 750,273</b>	<b>\$ 1,028,703</b>	<b>\$ 3,287,029</b>	<b>\$ 1,096,813</b>	<b>\$ 1,054,764</b>	<b>\$ 3,917,127</b>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**

**Statement of Activities**

Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2014)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
Expenses.....	\$ 1,653,569	\$ 616,997	\$ 967,372	\$ 100,472	\$ 2,317,790	\$ 138,494	\$ 5,794,694
Program revenues:							
Charges for goods and services.....	880,755	222,276	690,283	35,854	1,426,716	38,744	3,294,628
Operating grants and contributions.....	50,731	432,533	412,588	109,739	880,004	70,830	1,956,425
Capital grants and contributions.....	110,036	-	-	69,573	18,760	29,478	227,847
<b>Total program revenues.....</b>	<b>1,041,522</b>	<b>654,809</b>	<b>1,102,871</b>	<b>215,166</b>	<b>2,325,480</b>	<b>139,052</b>	<b>5,478,900</b>
<b>Change in net position.....</b>	<b>(612,047)</b>	<b>37,812</b>	<b>135,499</b>	<b>114,694</b>	<b>7,690</b>	<b>558</b>	<b>(315,794)</b>
<b>Net position, July 1, 2013 (restated)—Note B,S.....</b>	<b>(2,688,408)</b>	<b>712,461</b>	<b>893,204</b>	<b>3,172,335</b>	<b>1,089,123</b>	<b>1,054,206</b>	<b>4,232,921</b>
<b>Net position, June 30, 2014.....</b>	<b>\$ (3,300,455)</b>	<b>\$ 750,273</b>	<b>\$ 1,028,703</b>	<b>\$ 3,287,029</b>	<b>\$ 1,096,813</b>	<b>\$ 1,054,764</b>	<b>\$ 3,917,127</b>

- The notes to the financial statements are an integral part of this statement. -

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Presentation**

The basic financial statements of the Commonwealth of Pennsylvania (the Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments. There may be rounding differences between amounts reported in the Basic Financial Statements section and amounts reported in other sections of the Comprehensive Annual Financial Report (CAFR). Also note, all amounts in the CAFR are stated in thousands unless otherwise indicated.

**Government-Wide Financial Statements**

Government-wide financial statements report the financial position and results of activities for the Commonwealth of Pennsylvania as a whole, except for its fiduciary activities. Separate columns are presented for governmental and business-type activities within the primary government (PG) and discretely presented component units (DPCU). The Statement of Net Position reports all assets, deferred outflows of resources, liabilities and deferred inflows of resources for the primary government of the Commonwealth. The Statement of Activities reports the total cost of providing governmental services, by function, net of related program revenues; and after including general revenues, reports whether the total net position of the government increased or decreased during the fiscal year ended June 30, 2014. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (CU) that are fiduciary in nature because they are held for the benefit of others and are not available to address activities or obligations of the PG. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds and two blended CUs.

**Financial Reporting Entity**

The basic financial statements include all funds of the PG, which for reporting purposes represents the Commonwealth of Pennsylvania, as well as the CUs determined to be included in the Commonwealth's financial reporting entity. A fund is a self-balancing set of accounts, segregated for specific purposes. A CU is a legally separate organization, the activity of which must be included in the Commonwealth's reporting entity.

The basic financial statements include the government-wide financial statements and fund financial statements. The fund financial statements present governmental, proprietary and fiduciary financial statements. Reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-level financial statements to the government-wide financial statements.

School districts, local governments, counties and numerous authorities are considered separate, stand-alone primary governments or organizations. Although these organizations may receive significant PG operating and/or capital subsidies, they have been excluded from the financial reporting entity because they are governed by popularly-elected officials or appointees and are not fiscally dependent on the PG. The PG provides significant subsidies and appoints a portion, but not a voting majority, of the governing boards at the following four universities (commonly referred to as state related): Pennsylvania State University, University of Pittsburgh, Lincoln University and Temple University. However, given the absence of PG appointment of a governing board voting majority and the lack of fiscal dependency, these universities are excluded from the financial reporting entity.

**Primary Government**

For financial reporting purposes, the Commonwealth of Pennsylvania is a primary government. The PG includes all publicly elected members of the executive, legislative, and judicial branches of the Commonwealth. The PG also includes all Commonwealth departments, agencies, boards, and organizations that are not legally separate.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Component Units**

CUs are legally separate organizations for which the Commonwealth is either financially accountable or the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. CUs are reported either discretely as an aggregated separate column in the government-wide financial statements or blended in both the government-wide and fund financial statements as if they were funds of the PG. The decision to include and how to report a CU in the Commonwealth's reporting entity is based on several criteria, including legal standing, debt responsibility, fiscal dependency, and financial accountability. The Commonwealth reports twenty CUs, sixteen of which are reported as DPCUs, two as CU fiduciary funds and two as blended CUs. The financial information for the DPCUs reported in the aggregate in the government-wide financial statements are presented separately in the Combining Financial Statements section of the CAFR. CUs classified as fiduciary funds are aggregated in the Pension (and Other Employee Benefit) Trust Funds column in the fund financial statements.

More detailed information for the individual CUs is available from the CUs' separately issued financial statements available by writing to the Commonwealth's Chief Accounting Officer, 555 Walnut Street, Ninth Floor, Harrisburg, PA 17101-1921. The following paragraphs are a brief description of the Commonwealth's CUs. Note S and the Combining Financial Statements contain additional DPCU information.

**Blended Component Units**

A blended CU is an entity that functions as an integral part of the PG and as a result the entities financial data is blended with the financial data of the PG. With the implementation of GASB 61 for fiscal year ending June 30, 2013, the following two entities are reported as blended CUs because the total debt of the CUs are expected to be repaid entirely or almost entirely with resources of the PG.

**Commonwealth Financing Authority (CFA)** - The CFA administers and funds economic stimulus programs. The programs offer financial assistance through loans, grants, guarantees, sales, leases, investments, lines and letters of credit, and other authorized financial arrangements. The CFA is authorized to issue limited obligation revenue bonds and other types of limited obligation revenue financing. The PG appoints all seven voting members of the Board of Directors, four by appointment, whom may be removed at will, and three ex-officio board members, the Secretary of Community and Economic Development, Secretary of the Budget, and Secretary of Banking. A Service Agreement entered into by the CFA and the Department of Community and Economic Development (DCED), a PG agency, in 2005 states that the DCED shall request annual appropriations from the General Assembly in amounts necessary to pay the debt service requirements of the CFA. CFA's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the PG.

**Philadelphia Regional Port Authority (PRPA)** - The PRPA operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The PRPA charges rental and other fees to port users and obtains funding from the PG. The PRPA also issues revenue bonds to finance its activities. The Governor must approve the issuance of its debt. The PG appoints all eleven voting board members and can remove board members at will. The PG provides operating and capital subsidies and pays rent in amounts equal to PRPA debt service requirements. PRPA's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the PG.

**Fiduciary Fund Component Units**

A fiduciary fund CU is an entity that functions as an integral part of the PG but because the funds are held for the benefit of others and are not available to address activities or obligations of the PG, they are reported separately throughout this financial report.

**State Employees' Retirement System (SERS)** - The SERS is a public employee retirement system that provides pension benefits to Commonwealth employees. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. The PG makes essentially all employer contributions to the SERS; PG employees make almost all of the employee contributions to the SERS (virtually all PG employees are required to join the SERS). The PG is responsible for substantially all of the SERS pension obligations. The SERS provides services and benefits almost exclusively to the PG. The SERS administers

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

both a defined benefit plan and a defined contribution plan. The defined benefit plan is funded through a combination of employee contributions, employer contributions and investment earnings. The defined contribution plan is funded by voluntary employee contributions and investment earnings. The SERS is reported for its fiscal year ended December 31, 2013.

Public School Employees' Retirement System (PSERS) - The PSERS was created to administer and provide pension benefits to public school employees in Pennsylvania. The PSERS covers almost all such employees. Covered elementary and secondary school employers make employer contributions, with the PG reimbursing each employer at least half their required annual contribution. Employer contributions for covered employees of higher education institutions and state-owned schools are shared equally by covered employers and the PG; all covered public school employees also contribute. The PG appoints eight of fifteen voting board members; the seven other members are appointed by active or retired public school employees or are appointed by public school boards. In addition to making significant contributions to the PSERS, the PG guarantees the payment of all annuities and other pension benefits. This represents a compelling PG financial burden.

**Discretely Presented Component Units**

DPCUs are legally separate organizations for which the elected officials of the PG are financially accountable. In addition, DPCUs can be other organizations of which the nature and significance of their relationship with the PG is such that exclusion of these organizations from the PG's financial statements would be misleading. DPCUs do not function as an integral part of the PG and therefore are presented in separate (discrete) columns.

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain, and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting board members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation, which represents a financial benefit to the PG. The Governor must approve the issuance of all PTC debt, by which the PG can impose its will. The PG is not obligated for all PTC debt, but the PG could take certain actions to satisfy bondholders. As further disclosed in Note N to the Financial Statements, the Commonwealth is contingently liable for \$970,503 of PTC debt at fiscal year-end. The PTC is reported for its fiscal year ended May 31, 2014.

Pennsylvania Housing Finance Agency (PHFA) - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit older adults, persons with disabilities, and low- and moderate-income individuals and families. The PG appoints all voting board members. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare, and the State Treasurer serve as ex-officio members. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital reserve account or if additional funds are needed to avoid a default on the PHFA debt. This moral obligation represents a financial burden to the PG. The PHFA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

Pennsylvania Higher Education Assistance Agency (PHEAA) - The PHEAA makes grants and loans to students to help fund the cost of higher education. Through June 30, 2014, lending institutions and post-secondary schools were involved in the loan program. The PG funds the PHEAA grant program; the PHEAA issues revenue bonds to fund the student loan program. Revenue bonds are repaid from student loan repayments. The PHEAA also services student loan portfolios for lending institutions and the Federal government. The PG appoints all twenty voting board members. A significant PG financial burden exists through subsidizing the PHEAA grant program; also, although the PG is not obligated for the PHEAA revenue bonds, the PG could take certain actions to satisfy bondholders. The PHEAA is fiscally dependent, as the Governor must approve the issuance of its debt.

Pennsylvania Infrastructure Investment Authority (PENNVEST) - The PENNVEST makes grants and low-interest loans to local governments and authorities, businesses, and nonprofit organizations for the construction, improvement, repair or rehabilitation of drinking and waste water systems. The PENNVEST obtains funds through Commonwealth general obligation bond proceeds (approved by referendum), revenue bonds, the Federal government, and contributed amounts from Commonwealth funds. Loan repayments finance the PENNVEST debt service costs. The PENNVEST operates closely with the Department of Environmental Protection. The PG appoints all voting board members. By issuing general obligation debt and

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

providing the proceeds to PENNVEST as capital contributions, a significant financial burden exists. The PG is not obligated for the PENNVEST debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of the PENNVEST revert to the Commonwealth.

State System of Higher Education (SSHE) - The SSHE was created to provide instruction for postsecondary students. The SSHE is composed of fourteen universities and an administrative headquarters. Resources are provided by student tuition, grants, and PG subsidies. The PG appoints all twenty voting board members, which in turn appoint the university presidents and chancellor. Five of the appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE which creates a significant financial burden. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (PHEFA) - The SPSBA and the PHEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts and public/private colleges and universities. Neither the PG nor the Authorities are obligated for debt service payments, these bonds are repaid solely from lease/loan payments from the schools. All nine voting members of the SPSBA and the PHEFA governing boards are PG's high ranking officials being ex-officio board members by virtue of their position. The PG's Department of Education approves the SPSBA's projects, which indicates imposition of will.

Ben Franklin Technology Development Authority (BFTDA) - The BFTDA encourages and coordinates programs and investments which advance the competitiveness of Commonwealth companies in the global economy. The BFTDA, staffed by the Department of Community and Economic Development (DCED), provides vital seed capital, technology commercialization and entrepreneurial support services to the technology sector of the Commonwealth's economy. The PG appoints all twenty-one voting members of the governing board. The PG also provides funding on an annual basis, which is a financial burden to the PG.

Port of Pittsburgh Commission (PPC) - The PPC promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities. The PG appoints all fifteen voting members of the governing board and can impose its will by removing board members at will. The PG provides funding for the PPC but is not required to do so.

Philadelphia Shipyard Development Corporation (PSDC) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PG appoints the majority of the governing board by appointing three of five voting board members. The PG also provides a significant portion of funding for the PSDC, which is a financial burden to the PG. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction, and job recruitment and training costs. The PSDC is reported for its fiscal year ended December 31, 2013.

Pennsylvania Industrial Development Authority (PIDA) - The PIDA was created to provide employment opportunities throughout the Commonwealth by attracting businesses and investors to the Commonwealth and retaining existing businesses. The PIDA provides low interest rate loans to prospective and existing businesses focusing on areas of the Commonwealth where unemployment rates are the highest. Loans are made at lower-than-market interest rates; the interest rates are based on local unemployment and other economic conditions. The PIDA issues revenue bonds to finance the loan program. Loan repayments are used for debt service payments. The PIDA works closely with the Department of Community and Economic Development. The PG appoints all voting board members. The PG has provided capital contributions and "excess" PIDA funds are transferred to the **General Fund**, which represents a financial burden and benefit to the PG. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

Thaddeus Stevens College of Technology (College) - The College is governed by a Board of Directors that is a body politic and corporate constituting a public corporation, making the College an entity legally separate from the PG. The Governor, with the advice of the Senate, appoints nine of the ten voting Board members, and the Secretary of Education serves as an ex-officio member. The PG has some ability to influence the structure and/or content of the College's budget through overview of the Department of Education. The College presents a financial burden to the PG, as the PG appropriates funds for College operations.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Pennsylvania Convention Center Authority (PCCA) - The PCCA was created to operate the Pennsylvania Convention Center located in the City of Philadelphia. The PG may impose its will because it has final approval authority over the PCCA operating and capital budget and the PCCA may not incur debt without the prior written approval of the PG. The PG financed a portion of the PCCA facility in prior fiscal years and during the fiscal year ended June 30, 2014 as well as paying other periodic amounts to the PCCA, thus there is a financial burden on the PG.

Pennsylvania Economic Development Financing Authority (PEDFA) - The PEDFA was created to lend money primarily to businesses to promote economic development in the Commonwealth. The PEDFA issues revenue bonds to fund specific projects and repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDFA is not obligated to bondholders beyond amounts received by the Authority from the funded projects. Financial statement information for the PEDFA is not reported because its only activity involves conduit debt. The PG appoints eleven of the sixteen board members and five members are ex-officio. The PG is not obligated for the PEDFA debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of PEDFA revert to the Commonwealth. Although, the PEDFA issues only conduit debt and therefore there is no direct financial benefit or burden attributable to the PG, the ultimate purposes of the PEDFA is to benefit the PG by supporting and growing the tax base of the PG through economic development loans. Therefore because the PG is the ultimate beneficiary of the growing tax base, provides all management and administrative services to the PEDFA, as well as appoints the entire board, it would be misleading to exclude the PEDFA from the CAFR.

Pennsylvania Energy Development Authority (PEDA) - The PEDA was created to promote the development of energy sources within the Commonwealth. PEDA has two distinct functions: (1) the issuance of non-recourse debt and (2) the management of the Energy Development Fund. The Energy Development Fund is reported as activity of the PEDA. The non-recourse debt that was previously issued by PEDA has been satisfied. The PG appoints thirteen of the nineteen board members and six members are ex-officio. The Governor must approve the issuance of PEDA debt. By legislative authority, the PEDA is required to take action to deposit excess moneys into the Commonwealth's **General Fund** and that the PEDA may requisition moneys in the amounts necessary to pay administrative costs, which results in a financial benefit and burden to the PG.

Pennsylvania eHealth Partnership Authority (eHealth) - On July 5, 2012 the Governor signed Act No. 121 (Senate Bill 8, Printer's No. 2269) known as the Pennsylvania eHealth Information Technology Act, which established the Pennsylvania eHealth Partnership Fund. The fund is administered by eHealth in accordance with the act to promote and maintain health information exchange that complies with Federal and State law. The PG appoints all fifteen members of the board and has a significant financial burden in funding eHealth.

**Related Organizations**

Related organizations are legally separate, fiscally independent entities for which the Commonwealth appoints a voting majority of the board, but the Commonwealth is not financially accountable for the entity.

The Philadelphia Parking Authority (Authority) is financially reported as a DPCU unit in the City of Philadelphia's financial reporting entity. Act 22 of 2001 provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board.

The Philadelphia School District (School District) is financially reported as a DPCU in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 640 amending Act 46 of 1999, providing for several changes to the Public School Code. Among other things, the changes provide for the Commonwealth to appoint a voting majority of the School Reform Commission that now governs the School District. Despite these changes, the School District remains fiscally dependent on the City.

Patient Safety Authority is charged with taking steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities, and birthing centers. The PG appoints all eleven members of the Board; the Pennsylvania Physician General, who serves as the Board chair, six members appointed by the Governor representing specific professional occupations, and four members appointed by the General

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assembly. Although the Pennsylvania Department of Health approves the recommendations that will be adopted, the approval is not substantive.

Insurance Fraud Prevention Authority (IFPA) assists in the prevention, discovery, investigation, and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties, and awards. The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves ex-officio as one of these six members. Through a contract (exchange transaction) a significant portion of IFPA expenditures funds the Section on Insurance Fraud in the Office of Attorney General.

**Joint Venture**

A joint venture is a legal entity that results from a contractual arrangement owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. Joint control means no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. The purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services. The Pennsylvania Employees Benefit Trust Fund is the only joint venture in which the Commonwealth participates.

The Pennsylvania Employees Benefit Trust Fund (PEBTF) was created by the Commonwealth, through its Office of Administration, using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides active Commonwealth employee healthcare benefits and is the Commonwealth's third-party administrator for the Commonwealth's retiree healthcare programs. A governing board administers the PEBTF; one-half of the board is appointed by the Commonwealth and one-half is appointed by the various unions. Neither the Commonwealth nor the unions control the governing board or the PEBTF; administration is jointly and equally shared. The Commonwealth and certain of its employees pay for the cost of providing benefits. Contribution amounts are based on the terms contained in collective bargaining agreements. Employee unions are not financially responsible for making contributions. Neither the Commonwealth nor the employee unions have an equity interest or any ongoing financial interest in the PEBTF. Aside from its obligation to make periodic, established contributions, the Commonwealth is not responsible for any obligations of the PEBTF.

**Primary Government – Fund Structure**

**Fund Accounting:** In governmental accounting, a fund is defined as an independent fiscal and accounting entity, with a self-balancing set of accounts, recording cash and/or other resources together with all related liabilities and equities. The purpose of a fund is for carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. In the Commonwealth, funds are established by legislative enactment or, in certain rare cases, by administrative action.

The Commonwealth transactions are recorded in three fund types: Governmental, Proprietary and Fiduciary funds. In addition, within each fund type there are various categories of funds.

The Governmental funds include two funds that qualify as major funds (as defined by GASB Statement 34) and the Proprietary funds include five funds that qualify as major funds. Major funds are displayed in bold print in the Notes to the Financial Statements.

**Governmental Funds**

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, and capital project funds.

The **General Fund** is the Commonwealth's main operating fund. The **General Fund** accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

expenditure for specific purposes other than debt service or capital projects. The **Motor License Fund**, one of several special revenue funds, is the only special revenue fund reported as a major fund.

The **Motor License Fund**, a major fund, receives revenues from liquid fuels taxes, licenses and fees on motor vehicle registrations and operating privileges, aviation fuel taxes, Federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects, and other miscellaneous highway revenues. The **Motor License Fund** makes expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

Debt Service Funds account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. There are no major debt service funds.

Capital Projects Funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. There are no major capital projects funds.

**Proprietary Funds**

The Proprietary funds are used to account for activities that receive significant support from fees and charges. They focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles, similar to those used by private sector businesses, are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and internal service funds.

Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity;
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), be recovered with fees and charges; or
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The **State Lottery Fund**, **State Workers' Insurance Fund**, **Unemployment Compensation Fund**, **Tuition Payment Fund**, and **Commonwealth Financing Authority** are enterprise funds reported as major funds.

The **State Lottery Fund** provides for the operation of the Pennsylvania State Lottery and for programs to support older Pennsylvanians. Revenues are derived from the sale of lottery tickets, interest earned on securities and deposits, unclaimed prize monies, and Federal grants. Fund expenses pay for prizes to holders of winning lottery tickets and commissions to local lottery agents. Amounts remaining after payment of lottery prizes and commissions are used to fund programs benefiting older Pennsylvanians including PENNCARE, PACE, PACENET, free mass transit and reduced fare shared-ride programs, and property tax and rent rebates.

The **State Workers' Insurance Fund (SWIF)** was created by legislation on June 2, 1915 and operates within the Department of Labor and Industry. It is a self-sustaining fund providing workers' compensation insurance to employers, including those who are refused policies by private insurance firms. **SWIF** is subject to underwriting rules, classifications, and rates promulgated by rating bureaus authorized by the Commonwealth Insurance Commissioner. Premium rates are established by the bureaus based on the history of accidents by industry classification. Revenues are generated by premiums charged to policyholders plus investment income. Workers' compensation payments and administration costs are paid from **SWIF**. **SWIF** is reported for its fiscal year ended December 31, 2013.

The **Unemployment Compensation (UC) Fund** is comprised of four basic components: the Employer Contribution Fund, the UC Benefit Payment Fund, the Special Administration Fund, and the UC Trust Fund. The purpose of these funds is to collect



**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

employer assessments for unemployment compensation and transfer the assessments to the Federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay unemployment compensation payments to claimants.

The **Tuition Payment Fund** offers a college savings program allowing participants to purchase college credits at the current year rates. The program is administered by the Tuition Account Program Bureau within the Treasury Department with oversight by the Tuition Account Program Advisory Board. Revenue is derived primarily from application fees, participant contributions, and investment income. Fund expenses consist mainly of payments to educational institutions and administrative costs.

The **Commonwealth Financing Authority (CFA)** is a blended CU. Please see the aforementioned description for **CFA**.

Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

The Purchasing Fund is used to purchase materials, supplies, services, and equipment for use by departments, agencies, boards, and commissions of state government, and to pay costs associated with administering the Purchasing Fund. The Purchasing Fund receives reimbursements from the various Commonwealth departments, boards, and commissions for the materials, services, and supplies provided. Also, the Purchasing Fund receives proceeds from the sale of vehicles and unserviceable property as well as from investment income. From time to time, the Purchasing Fund has borrowed from the **General Fund**; all such borrowings have been repaid.

The Manufacturing Fund uses inmate labor to produce items for the Department of Corrections and other Commonwealth agencies. The revenue source is the sale of items produced or services provided. Expenses include raw materials, inmate labor, and general and administrative costs.

**Fiduciary Funds**

Fiduciary funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party and that cannot be used to support that government's own programs.

Trust and Agency Funds account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension (and Other Employee Benefit) Trust Funds, an Investment Trust Fund, a Private Purpose Trust Fund, and Agency Funds.

The State Employees' Retirement System (SERS), a Pension Trust Fund, is a CU and accounts for the payment of retirement, disability, and death benefits to members of the SERS and their beneficiaries. The Deferred Compensation Fund is a pension trust fund that collects and administers amounts contributed by Commonwealth employees who defer a portion of their income until future years, in accordance with Internal Revenue Code Section 457. The SERS and the Deferred Compensation Fund are reported for their fiscal years-ended December 31, 2013.

The Public School Employees' Retirement System (PSERS), a Pension Trust Fund, is a CU and was created to administer and provide pension benefits to public school employees in Pennsylvania.

The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments, school districts, and not for profit entities. The INVEST Program for Local Governments is reported for its fiscal year ended December 31, 2013. Audited financial statements for that Program are available through the Chief Accounting Officer.

The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs. Audited financial statements for that Program are available through the Chief Accounting Officer.

The Statutory Liquidator Fund, the largest Agency Fund, converts the remaining assets of insolvent insurance companies to cash for remittance to policyholders, creditors, and stockholders. The order of distribution of the assets is established in

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Article V of the Pennsylvania Insurance Department Act of 1921 and on a Commonwealth Court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders, and stockholders.

The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases.

The Medical Care Availability and Reduction of Error Fund (MCare), created by Act 13 of 2002, is used to pay claims against participating health care providers for losses or damages awarded in medical professional liability actions against them in excess of the basic insurance coverage required by the act.

The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire fighter pension costs.

**Measurement Focus and Basis of Accounting – Government-Wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. This means that the Statement of Net Position reports all assets (including capital assets, such as heavy trucks, highways, and bridges), all liabilities regardless of when payment is due and all deferred inflows and outflows of resources. The Statement of Activities includes all revenues and expenses (regardless of when cash is respectively received or paid). The Statement of Activities reports program revenues, which are revenues derived directly from a specific governmental function and are reported by the function, which generates the revenue. Charges for goods or services, most investment income, grant revenues, and fines are reported as program revenues. Neither program revenues nor expenses are reported for donated works of art, historical treasures or similar assets received during the fiscal year because such donations are not material. All tax revenues, except for unemployment compensation tax revenues which are reported as charges for sales and services program revenues, are classified as general revenues in the Statement of Activities. The Statement of Activities also reports governmental activities expenses that include governmental fund expenditures (those which are not eliminated or reclassified) and current year depreciation on capital assets, which recognizes the cost of ordinary use of the assets over their estimated useful lives. The costs of most employee benefits earned during the fiscal year (such as vacation time earned) and increases in self-insurance liabilities are also reported as expenses in the Statement of Activities when incurred, regardless of when the benefits are used or the liabilities are paid.

**Measurement Focus and Basis of Accounting – Fund Financial Statements****Governmental Funds**

The **General Fund**, special revenue funds, debt service funds, and capital project funds (governmental funds) are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are presented on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year that they become susceptible to accrual (both measurable and available to pay current fiscal year liabilities). The Commonwealth accrues the following major revenue sources that are both measurable and available (available is defined as being received within 60 days of fiscal year-end for these revenues): sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, inheritance taxes, liquor taxes, investment income, institutional revenues, and sales of goods and services. Grant revenues, including Federal government grant revenues, are recognized when earned and available; accrued amounts due from the Federal government are treated as available in the period in which all applicable eligibility requirements have been met. Revenues from most other sources are recognized when received.

Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations and other long-term liabilities are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

than allocating a portion of related cost to the fiscal year when the items are actually used. Expenditures are reported for amounts accrued at fiscal year-end that normally would be liquidated with expendable available financial resources.

**Proprietary Funds and Fiduciary Funds**

The enterprise, internal service (proprietary funds), pension (and other employee benefit) trust funds, the investment trust funds and private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of these funds are included on the Statement of Net Position. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Proprietary Funds classify revenues and expenses as either operating or non-operating, depending on the nature of the activities reported in the individual fund. The majority of transactions are reported as operating; however, investment income and grants are reported as non-operating revenues by all Proprietary Funds. Fiduciary funds, except for agency funds, classify revenues and expenses as either additions or deductions to net position.

Agency funds, a fiduciary fund type, use the accrual basis of accounting to report assets and liabilities. Agency funds have no measurement focus and do not report operating statements.

**Significant Accounting Policies**

**Pooled Cash:** In accordance with the Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

**Cash Equivalents:** No investments that could be defined as cash equivalents have been treated as such on the Statement of Cash Flows; therefore, only net changes in cash are displayed.

**Investment Pools:** The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of internal investment pools that seek to provide preservation of principal, liquidity, diversification, and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary or long-term investments; the pools themselves are not financially reported. Periodic earnings are allocated to specific participating funds. Several individual funds have statutory authority to own investments outside the Commonwealth Investment Program (CIP). The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements and is reported as an Investment Trust Fund.

**Temporary Investments:** The Treasury Department manages the temporary investment pools. Practically all individual funds that are part of PG are participants in the temporary investment pools. Temporary investments are reported at cost, except for the INVEST Program, which reports at amortized cost. Such investments, which are expected to be realized in cash within twelve months after fiscal year-end or less, are reported as temporary investments. The Treasury Department accounts for each participating fund's equity (considered "shares") on a daily basis. "Share" balances of participating funds may fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund. These investments are considered internal investment pools. Periodic earnings are allocated to specific participating funds based on the weighted daily average share balance.

**Long-Term Investments:** Investments expected to be realized in cash after more than twelve months from fiscal year-end are reported as long-term investments. Long-term investments are reported at fair value. Fair values are based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities that are not actively traded. Certain pension trust fund investments, including real estate, venture capital, private equity, private placements, and alternative investments are valued based on the net asset value as reported by the fund manager. In addition to long-term investments held by funds with statutory authority to own investments outside the CIP, the Treasury Department manages a long-term investment pool in which a number of individual funds

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

participate. Income is allocated periodically to specific participating funds based on the net asset value of a fund's shares at redemption date. Income is also distributed periodically based on the net asset value of the pool and participant fund share balances on the income declaration date.

**Inventories and Prepaid Expenses:** Inventories of operating materials and supplies are reported by certain governmental activities. Operating and merchandise inventories are reported by Proprietary Funds and the SSHE, a DPCU. Operating materials and supplies inventories are valued at cost (first-in, first-out) and merchandise inventories are reported at the lower of cost or market. In the governmental fund financial statements, inventories are accounted for using the purchases method whereby expenditures are reported for current-year purchases of operating materials and supplies. Prepaid expenses are not reported in governmental fund financial statements.

**Due From Other Governments:** This receivable represents amounts due primarily from the Federal government for various department programs.

**Capital Assets and Depreciation:** General capital assets (including infrastructure) and other capital assets are reported at cost or estimated historical cost in the Statement of Net Position. Donated capital assets are reported at fair market value at the time of donation. The cost of all land is reported; for other types of capital assets, the following minimum dollar reporting thresholds are used:

Land improvements, buildings and building improvements.....	\$	25
Machinery and equipment.....		25
Highway and bridge infrastructure .....		100
All other infrastructure .....		25
Computer software .....		1,000
Trademarks, patents and copyrights.....		100

Commonwealth agencies maintain inventories of all their respective capital assets, including assets acquired for less than the above minimum amounts, which are not capitalized in the Basic Financial Statements.

The Pennsylvania Historical and Museum Commission (PHMC) owns diverse collections of historical, architectural, prehistoric and artistic artifacts, archives and manuscripts and scientific specimens. The Commonwealth does not capitalize these collections, as they meet the following criteria: PHMC's mission in acquiring these collections is for the purpose of preservation, education, research, and exhibition; PHMC secures and preserves all collections in order to adequately preserve Commonwealth history; and all acquisitions and deaccessions must be approved by the PHMC Collections Committee and the PHMC Executive Director. All amounts received from the deaccessioning of artifacts/collections are placed in a restricted account that can only be used for the purchase of new artifacts/collections.

The Commonwealth does not capitalize expenditures to protect farmland under the Agricultural Area Security Law since participating counties within the Commonwealth play a much greater role in administering the Law than the Commonwealth. Capital assets (excluding land and construction in progress) are depreciated/amortized over the estimated useful lives of major capital asset classes using the straight-line method. Depreciation/amortization expense is reported in the Statement of Activities as part of direct functional expenses; all depreciation/amortization is allocated to a specific function. Capital assets reported by proprietary funds are reported in those funds at cost or estimated historical cost. Depreciation/amortization is reported on the straight-line basis over the capital assets' estimated useful lives. Depreciation expense associated with capital assets being procured under capital lease arrangements is reported as part of depreciation expense for other capital assets. The following useful lives are used for PG governmental activities:

Buildings and building improvements.....	40 years
Improvements other than buildings.....	30 years
Machinery and equipment.....	10 years
Highway heavy equipment.....	15 years
Highway infrastructure .....	25 years
Bridge infrastructure .....	50 years

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dams, dikes and pier infrastructure .....	50 years
Other infrastructure .....	20 years
Computer software .....	3 – 30 years
Trademarks, patents and copyrights.....	3 – 40 years

PG business-type activities report depreciation/amortization expense using useful lives that are very similar to the above and do not report any infrastructure. Certain land, buildings, and improvements owned by the Commonwealth and used by the SSHE, a DPCU, which were acquired or constructed before July 1, 1983 (the inception date for the SSHE), are financially reported as governmental activities capital assets. All general capital assets acquired or constructed for the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of SSHE debt are also reported as governmental activities capital assets. This reporting treatment is based on the title for the SSHE-used real property remaining with the PG. Based on agreements between the PG, through its Department of General Services (DGS), and SSHE universities in 2002, DGS effectively transferred occupancy, custody, and control to the SSHE universities and the SSHE universities assumed financial responsibility and legal liability for the SSHE-used real property but the Commonwealth retained title.

**Capital Asset Impairments:** Through a variety of policies, Commonwealth management requires agencies to perform periodic assessments of general and other capital assets. Beyond initial reporting (upon acquisition), agencies must adhere to continuing policies regarding usability, function, and condition of reported capital assets. With few exceptions, Commonwealth agencies using capital assets must report impairments promptly.

**Deferred outflows of resources** are a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows have a natural debit balance and, therefore increase net position similar to assets.

**Deferred inflows of resources** are an acquisition of net position by the government that is applicable to a future reporting period. Deferred inflows have a natural credit balance and, therefore decrease net position similar to liabilities.

**Liabilities:** Governmental, business-type, and proprietary liabilities in the Statement of Net Position, are presented as either “current” or “noncurrent.” Liabilities are segregated into these categories by establishing an average maturity for the liability class and classifying the portion due within one year of the statement date as current and the portion due beyond one year of the statement date as noncurrent. For liabilities without specific maturity or due dates, estimates are made of maturities. Liabilities without specific due dates include those related to self-insurance and compensated absences.

**Self-Insurance:** The Commonwealth is self-insured for annuitant medical/hospital benefits, employee disability and tort claims. Note M provides disclosures for self-insurance liabilities and property loss coverage.

**Compensated Absences:** Employees earn annual leave, depending on length of credited service, from between 2.7 percent to 10 percent of regular hours paid. Generally, a maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on an agreed upon percentage of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each calendar year. Most retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

<u>Days Available at Retirement</u>	<u>Percentage Payment</u>	<u>Maximum Days Paid</u>
0-100	30%	30
101-200	40%	80
201-300	50%	150
over 300 (in last year of employment)	100% of days over 300	11

Accumulated annual and sick leave liabilities payable with expendable available financial resources are reported by Governmental Funds; all compensated absences payable are reported by governmental and business-type activities and fiduciary funds.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Pollution Remediation Obligations:** In the government-wide Statement of Net Position, pollution remediation obligations are reported at the current value of expected outlays to fund remediation costs using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible estimated amounts and uses all expectations about possible cash flows on a site-specific basis. Such ranges are weighted within 'most likely', 'worst case' and/or 'best case' scenarios and are based on actual remediation cost experience, remediation cost estimates and/or discrete cost remediation treatment possibilities. All reported obligation amounts are estimates and are subject to change resulting from price increases or reductions, technology, or changes in applicable laws or regulations. In cases where remediation activities beyond site investigation/assessment or feasibility studies have not begun, remaining remediation costs are not reasonably estimable and liabilities for such cases are not reported.

**Interfund Transactions:** The Commonwealth has the following types of transactions between funds; between PG governmental activities and business-type activities; and between PG and DPCUs:

Statutory Transfers—Legally required transfers from specific funds that subsidize receiving fund programs, when paid are reported as "Transfers in" by the receiving fund and as "Transfers out" by the disbursing fund. Legally required payments from the PG to CU organizations are reported when paid as governmental activities program expenses and as either Operating Grants and Contributions or Capital Grants and Contributions by CU organizations. Interfund balances (amounts due from/to other funds) are reported for unremitted, due and payable, transfers at fiscal year-end. In the Statement of Activities, only transfers between governmental activities and business-type activities are reported as transfers.

Transfers of Expenditures (Reimbursements)—Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues and expenditures or expenses of the providing (reimbursed) fund are treated as reimbursements (above) and are eliminated. Expenditures or expenses of the using (reimbursing) fund are reported in fund financial statements and the Statement of Activities.

**Interfund balances:** Amounts due from/to other funds are reported for unremitted charges or collections at fiscal year-end that arise in connection with routine, ordinary governmental fund and proprietary fund operations. The composition of the Commonwealth's interfund receivables/payables at June 30, 2014 and transfers in/out during the fiscal year ended June 30, 2014 are presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Position.

**Investment Income:** Investment income includes interest, dividends, realized gains and losses, and the change in the fair value of investments, if any, during the fiscal year. If the change in the fair value of investments decreases during any specific fiscal year, such decreases could cause reported overall investment income to be negative within specific funds. Similarly, realized losses could cause reported overall investment income to be negative within specific funds. Certain investment income from specific funds' investments is assigned to another fund and is reported by the receiving fund if the income is transferred for legal or contractual reasons; otherwise, the investment income is reported as a transfer by the receiving fund. Specific fund disclosures for assigned investment income are provided in Note H.

**Grant and Intergovernmental Revenues:** Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement-type grant revenues are recorded when the related expenditures or expenses are incurred and the revenue is available to pay expenditures. Intergovernmental Revenues represent revenues received principally from the Federal government and include revenues received from the PTC, a DPCU, based on Act 44 of 2007 and Act 89 of 2013, and the related Lease and Funding Agreement between the PTC and the PG Department of Transportation.

**Pension Costs:** The Commonwealth's policy is to fund employer contributions to the SERS as required by the SERS board, through its statutory authority, or as required based on other applicable statutory requirements. Since 2005, legislatively established employer contributions have been completely funded but such contributions have been less than the 'annual required contributions of the employer' (ARC) calculated using 'parameters' defined by applicable accounting and financial

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

reporting standards for 'sole' and 'agent' employer governments. Since the SERS is a cost-sharing, multiple-employer pension plan, the Commonwealth does not financially report a net pension obligation for the amount by which the calculated ARC exceeds actual contributions to the SERS. The Commonwealth is a nonemployer contributor in relation to the PSERS, with a commitment to fund a minimum of 50 percent of the required contributions. See description of new, but not yet adopted, accounting standards at the end of this note for significant changes to these policies effective July 1, 2014.

**Indirect Expenses:** In the Statement of Activities, the full-cost allocation treatment is used, whereby reported program expenses, by function, include any expenses which could be treated as indirect expenses of another function.

**Interest Expense:** In the Statement of Activities, no interest expense is reported by direct program costs. No interest expense was capitalized during the fiscal year ended June 30, 2014.

**Bonds Issued, Premium/Discount on Bonds Issued and Bond Issuance Costs:** In governmental fund financial statements, the face amount of bonds issued and related premium/discount are separately reported as other financing sources/uses. Bond issuance costs are reported as expenditures. In government-wide financial statements, the face amount of bonds issued is reported as a liability and related premium/discount is amortized over the life of the outstanding debt and is reported as interest expense as part of functional governmental activities expenses. With the implementation of GASB 65 effective in the current fiscal year, bond issuance costs are no longer amortized but are expensed in the year of occurrence in the government-wide financial statements. Previously capitalized bond issue costs were charged off to equity as of July 1, 2013.

**Restricted Net Position:** These amounts were determined based on enabling legislation, externally restricted by creditors, grantors, contributions or laws that provide for restrictions on how the resources of special (non-General Fund) funds may be used. At June 30, 2014, a portion of governmental activities net position was restricted based on a Federal government purpose restriction.

**Governmental Funds Fund Balance Categories****Nonspendable:**

Nonspendable fund balances include amounts that cannot be spent because they are either not in a spendable form or they are legally or contractually required to be maintained intact.

**Spendable Categories:****Restricted:**

Amounts which may only be spent for 1) expenditures in accordance with grants received from external parties or 2) expenditures for limited, specific purposes authorized by enabling legislation (which also authorizes the Commonwealth to assess, levy, charge or otherwise mandate payment of resources from external sources) are reported as restricted fund balance.

**Unrestricted:**

**Committed:** Commonwealth law, enacted by the General Assembly (legislature) and approved by the Governor, is the Commonwealth's highest level of decision-making authority. Both legislative enactment and gubernatorial approval on or prior to fiscal year-end are necessary to establish, modify and/or rescind amounts committed.

**Assigned:** Based on applicable Commonwealth laws, the Governor is responsible for accounting and financial reporting matters. Through a 1984 Executive Order, the Governor delegates this authority to the Secretary of the Budget. Through further delegation, amounts assigned are determined jointly, between the Governor's Budget Office and the Office of Comptroller Operations. Fund balances are reported as assigned when the Commonwealth intends for resources to be used for specific purposes, but the requirements for resources to be reported as restricted or committed have not been met.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Unassigned:** This is a residual category. Only the **General Fund** can report a positive unassigned fund balance. The **General Fund** can also report a negative amount in the unassigned category. For other governmental funds where amounts restricted and/or committed exceed total fund balance, such funds report negative amounts in the unassigned category.

**Classification among fund balance categories:** Commonwealth laws, including annual enacted budgets, include legally enforceable expenditure restrictions on all funds. Commonwealth laws do not specifically recognize 'restricted' or 'unrestricted' (committed, assigned or unassigned) fund balance amounts. For financial reporting purposes, fund balance amounts for individual Commonwealth funds are reported in the first classification for which the amount 'qualifies', in this order: nonspendable, restricted, committed, assigned, and unassigned. Amounts are considered to have been spent from the fund balance classification from which specific expenditures are legally authorized. Within individual, specific Commonwealth funds, based on applicable law, individual expenditures may be disbursed from only one, specific appropriation at a time. Budgetary spending control occurs at the appropriation level. Since appropriations are not duplicated among the various GAAP-reported fund balance classifications and Commonwealth laws do not recognize the various classifications, accounting policies cannot establish that restricted amounts are spent before or after unrestricted amounts, or, within unrestricted amounts, that committed, assigned or unassigned amounts are spent in any specific order.

**Budget Stabilization Reserve Fund:** Act 91 of 2002 provided for this Fund, effective July 1, 2002, to gradually provide a budgetary reserve amounting to six percent of the revenues of the **General Fund**. The enacted **General Fund** budget for the fiscal year ended June 30, 2010 provided that nearly the entire balance in this Fund was transferred to the **General Fund**; a \$755,000 transfer occurred on October 15, 2009. Act 126 of 2014 continued the suspension of the transfer of surplus funds to the Budget Stabilization Reserve Fund during the fiscal year ended June 30, 2014.

**New Accounting Pronouncements – To Be Adopted:**

The GASB issued Statement No. 67 "Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25" in June 2012. The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing accountability. It specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. PSERS adopted Statement No. 67 for their June 30, 2014 financial statements. SERS will adopt Statement No. 67 for their December 31, 2014 financial statements.

The GASB issued Statement No. 68 "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27" in June 2012. This statement establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Commonwealth will be required to measure and record its proportionate share of the net pension obligations for its participation in the SERS and the PSERS, which is expected to have a significant impact on the Government-wide Financial Statements.

The GASB issued Statement No. 69 "Government Combinations and Disposals of Government Operations" in January 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The GASB issued Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of "GASB Statement No. 68" in November 2013. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, "Accounting and Financial Reporting for Pensions", concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.



**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The new standards must be adopted as follows:

GASB Statement No. 67    Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.

GASB Statement No. 68    Effective July 1, 2014 for financial statements for the fiscal year ending June 30, 2015.

GASB Statement No. 69    Effective July 1, 2014 for financial statements for the fiscal year ending June 30, 2015.

GASB Statement No. 71    Effective July 1, 2014 for financial statements for the fiscal year ending June 30, 2015.

## NOTE B – RESTATEMENTS

## Restatement Due to Adoption of New Accounting Standards

Effective July 1, 2013, the Commonwealth implemented the Governmental Accounting Standards Board's (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities" and Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees". GASB Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Commonwealth's implementation of GASB Statement No. 65 resulted in deferred bond issuance costs, an asset, being reclassified as an expense. Therefore, the Commonwealth's beginning net position has been restated. GASB Statement No. 70 established accounting and financial reporting standards for nonexchange financial guarantees (NFG). This Statement requires a government that extends an NFG to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The CFA did recognize NFGs, refer to Note N for further detail. Detail of the component unit restatements are reported in Note S. Also, refer to Note A for a description of the component unit acronyms used throughout the CAFR.

Presented below are the changes to the Government-wide Statement of Net Position and the Proprietary Funds Statement of Net Position as a result of the aforementioned changes.

Government-wide Statement of Net Position

	Governmental Activities	Business-type Activities	Total	Component Units
Net position, as previously reported, at June 30, 2013.....	\$ 24,323,963	\$ (1,199,582)	\$ 23,124,381	\$ 4,518,074
Adoption of GASB 65 and/or GASB 70:				
General Fund.....	(31,614)	-	(31,614)	-
Unemployment Compensation Fund.....	-	(12,810)	(12,810)	-
CFA - Note N.....	-	(21,406)	(21,406)	-
PRPA - nonmajor blended CU.....	-	(349)	(349)	-
PTC - Note S.....	-	-	-	(70,783)
PHEAA - Note S.....	-	-	-	(58,430)
PENNVEST - Note S.....	-	-	-	(17,387)
PIDA - nonmajor CU.....	-	-	-	(350)
PHFA - Note S.....	-	-	-	(58,347)
SSHE - Note S.....	-	-	-	(6,149)
Other changes:				
PHFA - Note S.....	-	-	-	(80,195)
SSHE - Note S.....	-	-	-	6,488
Net position, as restated, as of July 1, 2013.....	<u>\$ 24,292,349</u>	<u>\$ (1,234,147)</u>	<u>\$ 23,058,202</u>	<u>\$ 4,232,921</u>

Proprietary Funds Statement of Net Position - Enterprise Funds

	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2012)	Commonwealth Financing Authority	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total
Net position, as previously reported, at June 30, 2013.....	\$ (1,377,025)	\$ (102,157)	\$ (760,493)	\$ (135,106)	\$ 29,009	\$ 1,146,190	\$ (1,199,582)
Adoption of GASB 65 and/or GASB 70.....	(12,810)	-	(21,406)	-	-	(349)	(34,565)
Total net position, as restated, as of July 1, 2013.....	<u>\$ (1,389,835)</u>	<u>\$ (102,157)</u>	<u>\$ (781,899)</u>	<u>\$ (135,106)</u>	<u>\$ 29,009</u>	<u>\$ 1,145,841</u>	<u>\$ (1,234,147)</u>

**NOTE B – RESTATEMENTS (continued)**

GASB Statement No. 54 requires an analysis of funds annually to assure proper classification. Fund 191 Cigarette Fire Safety and Firefighter Protection Act Enforcement Fund resulted in a reclassification from the **General Fund** to a nonmajor Special Revenue Fund.

**Governmental Funds Balance Sheet**

	<b>General Fund</b>	<b>Motor License Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
<b>Fund balances, as previously reported, at June 30, 2013.....</b>	\$ 1,566,010	\$ 1,063,322	\$ 3,183,836	\$ 5,813,168
Reclassification of fund per GASB 54				
Cigarette Fire Safety & Firefighter Protection Fund.....	(342)	-	342	-
<b>Fund balances, as restated, as of July 1, 2013.....</b>	<b>\$ 1,565,668</b>	<b>\$ 1,063,322</b>	<b>\$ 3,184,178</b>	<b>\$ 5,813,168</b>

**NOTE C – NET POSITION AND FUND BALANCE**

**Governmental Activities and Business-Type Activities Net Position:** Total Net Position is the difference between total assets and total deferred outflows of resources less total liabilities and total deferred inflows of resources as reported on the Statement of Net Position. Total Net Position is reported in three distinct components: Net investment in capital assets; Restricted net position; and Unrestricted net position.

Net investment in capital assets represents total capital assets less accumulated depreciation and the outstanding liability (excluding unspent proceeds) for debt specifically related to the construction and acquisition of the capital assets. At June 30, 2014, governmental and business-type activities, respectively, reported net investment in capital assets of \$28,344,818 and \$489,357.

Restricted net position is reported based on constraints imposed by either: 1) creditors, grantors, contributors, or laws or regulations of the Federal or other governments; or 2) Commonwealth enabling legislation. At June 30, 2014, governmental and business-type activities, respectively, reported \$2,195,187 and \$937,637 of restricted net position. Net position restricted for other purposes of \$57,614 and \$147,076 for governmental activities and business-type activities, respectively, at June 30, 2014 include amounts for a range of dissimilar statutory purposes.

Unrestricted net position represents total net position less the amounts of net investment in capital assets and restricted net position. At June 30, 2014, governmental and business-type activities, respectively, reported net position deficits of \$7,658,746 and \$1,961,503.

**Governmental Funds Fund Balance:** Reported fund balance within individual governmental funds is categorized between nonspendable and spendable categories. At June 30, 2014 nonspendable fund balance is only reported for amounts which are not in spendable form; no nonspendable fund balance is reported based on either legal or contractual requirements to be maintained intact. Within the spendable category, fund balance is further categorized among: restricted, committed, assigned and, within the **General Fund** only, unassigned categories. At June 30, 2014, spendable governmental funds fund balance is categorized among all categories except that no assigned fund balance is reported among any governmental fund for which reporting assigned fund balance would cause reporting a deficit unassigned fund balance. The following chart provides detail about reported nonspendable fund balance and fund balance restrictions and commitments at June 30, 2014:

## NOTE C – NET POSITION AND FUND BALANCE (continued)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>Nonspendable:</b>				
<b>Not in spendable form:</b>				
Advances to other funds.....	\$ 4,475	\$ -	\$ -	\$ 4,475
Long-term loans receivable.....	59,811	-	-	59,811
Due from component unit.....	201,117	-	-	201,117
<b>Total nonspendable.....</b>	<b>265,403</b>	<b>-</b>	<b>-</b>	<b>265,403</b>
<b>Restricted for:</b>				
General government operations.....	45	-	-	45
Health-related programs.....	-	-	17,004	17,004
Transportation.....	-	1,122,852	235,032	1,357,884
Unemployment/worker's compensation.....	-	-	932,474	932,474
Environmental and conservation programs	-	-	668,770	668,770
Gaming licensing/regulation.....	-	-	673,270	673,270
Emergency support.....	-	-	50,777	50,777
Other purposes.....	-	-	76,560	76,560
<b>Total restricted.....</b>	<b>45</b>	<b>1,122,852</b>	<b>2,653,887</b>	<b>3,776,784</b>
<b>Committed for:</b>				
General government operations.....	761,990	-	-	761,990
Health-related programs.....	-	-	345,054	345,054
Transportation.....	-	-	34,512	34,512
Capital projects.....	-	-	389,158	389,158
Debt service.....	-	-	9,221	9,221
Elderly programs.....	69,913	-	-	69,913
Environmental and conservation programs	106,345	-	28,131	134,476
Economic development.....	2,811	-	-	2,811
Higher education.....	9,852	-	-	9,852
Other purposes.....	168,559	-	-	168,559
<b>Total committed.....</b>	<b>1,119,470</b>	<b>-</b>	<b>806,076</b>	<b>1,925,546</b>
<b>Unassigned:</b>				
Deficit.....	(1,950,956)	-	-	(1,950,956)
<b>Total fund balances.....</b>	<b>\$ (566,038)</b>	<b>\$ 1,122,852</b>	<b>\$ 3,459,963</b>	<b>\$ 4,016,777</b>

A portion of the nonspendable fund balance reported by the **General Fund**, \$4,475, is applicable to advances to other funds at June 30, 2014 as follows: \$2,300 to the **State Workers' Insurance Fund**, an Enterprise Fund, and \$2,175 to the **Motor License Fund**, a Special Revenue fund.

**Governmental Funds Fund Balance Deficit:** With the exception of the **General Fund**, no governmental funds reported deficits at June 30, 2014.

**Proprietary Funds Net Position:** Nonmajor Enterprise funds reported total restricted net position for "other purposes" of \$147,076 at June 30, 2014 for the following programs: mine subsidence insurance, \$105,980; liquor control, \$31,468; vocational rehabilitation, \$1,959; and \$7,669 for other programs.

**NOTE C – NET POSITION AND FUND BALANCE (continued)**

**Proprietary Funds Net Position Deficits:** Four of the five major Enterprise funds (**Unemployment Compensation Fund, State Workers' Insurance Fund, State Lottery Fund**, and the **Commonwealth Financing Authority**, a blended component unit), reported a net position deficit in the Proprietary Funds 'Statement of Net Position'. However, none of the nonmajor proprietary funds reported net position deficits at June 30, 2014.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK****Authority for Deposits and Investments****Treasury Department**

The deposit and investment policies of the Treasury Department are governed by Sections 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343), and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929, P.L. 177, No. 175).

Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments. This authority is subject, however, to the exercise of that degree of judgment and care under the 'prudent person' standard prevailing at that time. The 'prudent person' standard is one of judgment and care as defined by a person of discretion and intelligence, who is familiar with such matters, in exercising such standard in the management of their own affairs. And it must not be in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom as well as the probable safety of their capital. Treasury Department deposits and investments may include equity securities and mutual funds.

The Treasury Department manages the Commonwealth Investment Program (CIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the CIP. Treasury is required to exercise judgment and care in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. All investments are made in accordance with the statutory authority described in the preceding paragraph. The CIP investment pools are invested in both equity securities, fixed income securities and loans to the primary government to achieve the investment objectives of the CIP funds. Asset allocation targets among cash, equity securities, fixed income securities and alternative investments are established in order to meet these overall objectives.

Treasury has created Pools 99 and 198 within the CIP, each with its own distinct investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and risk tolerance. A highly liquid vehicle, Pool 99, consists of short-term fixed income securities and cash which provide a high degree of liquidity and security but only modest returns. Shares in this pool are classified as temporary investments. A less liquid vehicle, Pool 198, allows for investment in assets that offer potentially higher returns with commensurate risk. Shares in this pool are classified as long-term investments.

**Other Investing Organizations**

Certain investing organizations have statutory authority, which is comparable to the Treasury Department 'prudent person' authority above. The investments of such organizations are accounted for in the following funds: Workers Compensation, Tobacco Settlement, Workers Compensation Security Trust, **State Workers Insurance Fund (SWIF)**, **Tuition Payment**, Tuition Account Investment Program, INVEST Program for Local Governments (INVEST), and Underground Storage Tank Indemnification (collectively, other investing organizations). Most of the other investing organizations establish contractual arrangements with investment managers, which identify investment objectives without providing strict limitations on 'allowable' investment purchases. Most of the other investing organizations prohibit investing in certain assets, such as commodities and futures contracts, private placements (except Section 144), limited partnerships, and corporations that are engaged in the tobacco industry. Several of the organizations also prohibit short selling and margin transactions. Exceptions include **Tuition Payment** and Tobacco Settlement; these organizations permit some or all of the previously mentioned prohibited assets and transactions as well as foreign investments. **SWIF** and **INVEST** amounts are reported as of December 31, 2013 unless otherwise noted.

**Pension Trust Funds**

The State Employees' Retirement System (SERS), the Deferred Compensation Program (DCP), the Public School Employees' Retirement System (PSERS) and the Other Post Employment Benefit Investment Pool constitute combined Pension (and Other Employee Benefit) Trust Funds reported in the basic financial statements. The Other Post Employment Benefits

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

Investment Pool is managed by the Treasury Department, whereas the other aforementioned trusts are managed outside the Treasury Department.

Pension Trust Funds avoid deposit risks as such deposits must be authorized by the Treasury Department. Several state laws govern investment authority for the SERS and the PSERS, such laws provide 'prudent person' investing authority. Allowable DCP investment options are established by the SERS under its applicable statutory authority. A material portion of total Pension Trust Fund investments consists of equity securities, real estate and fixed income investments. SERS and DCP are reported as of December 31, 2013 unless otherwise noted.

**Statutory Liquidator Fund**

The Statutory Liquidator Fund, an agency fund, investments are primarily managed by the affected insurance companies pursuant to Liquidation Orders issued by the PA Insurance Commissioner. Other investments are managed by the Insurance Department's Office of Liquidations, Rehabilitations and Special Funds. Also, a portion of Statutory Liquidator holdings is invested in the CIP.

**Deposit Risks**

At June 30, 2014, Commonwealth bank balances of \$10,369 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$30,626 of Statutory Liquidator Fund deposits were subject to custodial deposit risk because they were uninsured and uncollateralized. PSERS, through its third party administrator, maintains certain bank deposits for the operation of its voluntary Health Options Program. These deposits are not required to be collateralized by statute or policy. These deposits totaled \$98,774 at June 30, 2014 and are under the custody of its bank which has an A-rating by Standard and Poor's (S&P) and an A3 rating by Moody's Investor Services (Moody's).

**Cash with Fiscal Agent**

Within the Business-Type Activities cash with fiscal agent the **Unemployment Compensation Fund** reported \$713,686 which is held with the Federal Unemployment Insurance Trust Fund.

**Restricted Cash**

Restricted cash consists of funds held for the payment of debt service interest and principal payments of the **Unemployment Compensation Fund** and debt service interest and principal payments and other purposes of the other nonmajor funds, all of which is collateralized. At June 30, 2014, the carrying amount the **Unemployment Compensation Fund** and other nonmajor funds restricted cash and cash equivalents were \$394,277 and \$4,462, respectively.

**Investment Risks**

**Risk Management Policies:** The Treasury Department, which is responsible for the CIP, **Tuition Payment** and INVEST Program, has formally adopted a written investment policy. Provisions of the written investment policy and current management of the investments address custodial credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk. Most of the other investing organizations have adopted investment policies intended to reduce the various risks. Pension Trust Fund policies limit custodial credit risk to a minimum but are exposed to credit risk, interest rate, and foreign currency risk. Credit risk is mitigated by following policies to purchase only 'investment grade' securities (Baa/BBB/BBB or better). Interest rate risk policies have been adopted to limit the risk by establishing maximum maturities. The establishment of policies limiting investment purchases from a single issuer mitigates concentration risk. The individual risk policies and related disclosures are discussed in greater detail below.



**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

**Investments by Type**

At June 30, 2014, the Treasury and other investing organizations, excluding Statutory Liquidator, Tuition Account Investment Program, SERS, DCP and PSERS, reported a total of \$18,084,453 in investments. Cash equivalents and certificates of deposit, amounting to \$1,501,134, which are held in the CIP and other portfolios, are reported as investments but are not included as part of fixed income investment disclosures. Excluding cash equivalents and certificates of deposits, total investments disclosed amount to \$16,583,319; of this amount, excluding equities and alternative investments (\$2,383,536 and \$921,218 respectively), fixed income investments disclosed amount to \$13,278,565. The investment types and related amounts are as follows:

<b>INVESTMENT TYPE</b>	<b>Amount</b>
Alternative Investments.....	\$ 921,218
Asset backed securities.....	65,435
Commercial paper.....	6,154,594
Corporate obligations.....	1,553,827
Equity.....	2,383,536
Money market mutual funds.....	2,399,369
Mortgage-backed securities.....	333,268
Mutual funds.....	43,773
Preferred securities.....	2,099
Private placements.....	214,953
Repurchase agreements.....	50,000
Securities lending collateral pool.....	377,253
Sovereign debt obligations.....	40,071
State and municipal obligations.....	274,722
U.S. Government agencies.....	26,348
U.S. Government sponsored enterprises.....	1,049,177
U.S. Treasury obligations.....	693,676
<b>Total investments .....</b>	<b>16,583,319</b>
Cash equivalents and certificates of deposit.....	1,501,134
<b>Total investments, cash equivalents and certificates of deposit.....</b>	<b>\$ 18,084,453</b>

In addition, at June 30, 2014, all reported investments of the Tuition Account Investment Program, amounting to \$1,685,567 consist entirely of mutual funds \$(1,625,928) and money market mutual funds \$(59,638).

**Custodial Credit Risk:** Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold its agreement to a transaction, with either the Treasury Department, the other investing organizations or the Pension Trust Funds, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. In accordance with a contractual relationship between the Treasury Department and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. Similarly, investments of the other investing organizations and the Pension Trust Funds are almost always registered in the name of the Commonwealth, as the Treasury Department is the statutory custodian for such investments. The **CFA** reported at June 30, 2014 \$627,157 of deposits and disclosed that due to the nature of the cash and cash equivalents balances, there is no custodial credit risk. Also, at June 30, 2014, only the Statutory Liquidator Fund, an Agency Fund, owned investment securities subject to custodial credit risk, in the amount of \$2,568,401. Such securities are neither insured nor registered and are either held by the counterparty or the counterparty's trust department or agent but not in the name of the Commonwealth. The investment types and related amounts are as follows:

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<u>Investment Type</u>	<u>Amount</u>
Asset backed securities.....	\$ 159,830
Corporate obligations.....	1,377,302
Mortgage-backed securities.....	65,347
Preferred securities.....	1,510
Private placements.....	168,072
Sovereign obligations.....	774
State and municipal obligations.....	10,451
U.S. Government agencies.....	111,150
U.S. Treasury obligations.....	673,965
<b>Total.....</b>	<b><u>\$ 2,568,401</u></b>

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. The Treasury Department places a 10% limit on the concentration of investments in any one fixed income issuer within the CIP, **Tuition Payment** and INVEST. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Treasury Department also places a 5% limit on the concentration of investments in one equity issuer within the CIP. Similarly, to a degree, the five other investing organizations limit exposure to concentration of credit risk. Several of the other investing organizations have adopted policies, which allow greater than 5% of portfolios to consist of securities issued by the U.S. Treasury. Among Treasury and other investing organizations, based on total portfolio value of \$16,583,319, the following concentrations existed as of June 30, 2014:

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury and Other Investing Organizations Portfolio</u>
Goldman Sachs Financial Square Fund.....	\$ 1,089,795	6.6%

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by Nationally Recognized Statistical Rating Agencies (NRSRA) such as Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch). The Treasury Department requires purchases of CIP assets to be investment grade (Baa/BBB/BBB or better) at the time of purchase. The fixed income portfolio includes a provision for the asset allocation to allow up to 10% of the portfolio to be in high yield investments. These investments, by definition, are not restricted to the investment grade requirements and include investments rated at Ba/BB/BB or below. Generally, the other investing organizations limit exposure to credit risk through policies, which prevents purchasing below investment grade (Baa/BBB/BBB).

At June 30, 2014, \$13,278,565 of total Treasury and other investing organization investments of \$18,084,453 are fixed income investments, susceptible to credit quality rating; the remainder is primarily equities \$2,383,536, alternative investments \$921,218, cash equivalents, certificates of deposit, and various deposit accounts of \$1,501,134. Of the Treasury amount susceptible to credit quality rating, \$9,667,334 is rated; ratings are not available for \$3,611,231 of fixed income investments:

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<u>Moody's Investors Service</u>	<u>Amount</u>
P-1.....	\$ 620,785
Aaa.....	273,357
Aa.....	90,401
A.....	432,977
Baa.....	438,713
Ba.....	144,956
B.....	164,178
Caa.....	30,801
Ca.....	69
<b>Moody's Investors Service subtotal.....</b>	<b><u>2,196,237</u></b>
 <u>Standard and Poor's</u>	
A-1.....	2,625,939
AAA.....	23,183
AA.....	2,077,601
A.....	88,771
BBB.....	85,883
BB.....	21,967
B.....	58,197
CCC.....	8,233
CC.....	29
D.....	72
<b>Standard and Poor's subtotal.....</b>	<b><u>4,989,875</u></b>
 <u>Fitch Ratings</u>	
F1.....	2,383,473
AAA.....	361
AA.....	2,968
A.....	49,267
BBB.....	39,336
BB.....	2,300
B.....	2,035
CCC.....	1,097
CC.....	157
C.....	210
D.....	18
<b>Fitch Ratings subtotal.....</b>	<b><u>2,481,222</u></b>
 <b>Rated subtotal.....</b>	<b>9,667,334</b>
<b>Unrated subtotal.....</b>	<b><u>3,611,231</u></b>
 <b>Total fixed income investments.....</b>	<b><u>\$ 13,278,565</u></b>

At June 30, 2014, 4% (\$434,319) of rated fixed income Treasury investments of \$9,667,334 are rated below investment grade. Approximately 27% (\$3,611,231) of the fixed income portfolio in Treasury and other investing organizations are not rated by the NRSRAs. Unrated Fixed Income Investments include securities that did not have a credit rating available from a NRSRA at June 30, 2014. Among the Tuition Account Investment Program's mutual fund portfolios, certain mutual funds hold fixed income investments susceptible to credit quality ratings and all such investments are rated Baa or higher by Moody's or BBB or higher by S&P.

The Pension Trust Funds may expose themselves to greater credit risk than the Treasury Department or other investing organizations to meet specific investment objectives. SERS and DCP fixed income securities (at December 31, 2013), which are exposed to credit risk, are rated as follows:

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<b>Moody's Investors Service<sup>a</sup></b>	<b>SERS</b>	<b>DCP</b>
AAA.....	\$ 280,903	\$ 85,974
AA.....	537,357	561,281
A.....	282,703	181,446
BAA.....	680,549	58,407
BA and below.....	477,602	1,635
Unrated <sup>b</sup> .....	29,370	429
Short-term investments.....	1,568,708	59,649
<b>Total.....</b>	<b>\$ 3,857,192</b>	<b>\$ 948,821</b>

- a. The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of Ba in this table.
- b. 'Unrated' represents securities that were either not rated or had a withdrawn rating.

PSERS fixed income securities, which are subject to credit risk rating, are listed below using the rating (expressed as S&P equivalent), available from Fitch, Moody's, and/or S&P that indicates the greatest degree of risk at June 30, 2014:

<b>Standard and Poor's Equivalent<sup>a</sup></b>	<b>Amount</b>
AAA.....	\$ 533,518
AA.....	613,511
A.....	460,003
BBB.....	648,371
BB and below.....	362,024
Unrated <sup>b</sup> .....	13,249,826
U.S. Government guaranteed <sup>c</sup> .....	2,189,602
<b>Total.....</b>	<b>\$ 18,056,855</b>

- a. The S&P rating represents all the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A+ is shown as a rating of A in this table.
- b. 'Unrated' securities include \$8,194,002 in collective trust funds.
- c. Represents securities issued by the U.S. Government and agency obligations explicitly guaranteed by the U.S. Government and not considered to have credit risk.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

The Statutory Liquidator Fund fixed income securities at June 30, 2014, which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 339,149
Aa.....	75,338
A.....	539,264
Baa.....	544,035
Ba.....	3,396
<b>Moody's Investors Service subtotal.....</b>	<b><u>1,501,182</u></b>
<u>Standard and Poor's</u>	
AAA.....	51,199
AA.....	708,383
A.....	82,867
BBB.....	127,734
BB.....	192
<b>Standard and Poor's subtotal.....</b>	<b><u>970,375</u></b>
<u>Fitch Ratings</u>	
AAA.....	12,826
AA.....	14,623
A.....	44,024
BBB.....	33,961
<b>Fitch Rating's subtotal.....</b>	<b><u>105,434</u></b>
<b>Rated subtotal.....</b>	<b>2,576,991</b>
<b>Unrated subtotal.....</b>	<b><u>485,173</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 3,062,164</u></b>

The \$3,062,164 exceeds the total of investments reflected in the Statutory Liquidator Statement of Fiduciary Assets and Liabilities as it also includes certain investments included within the cash with fiscal agents and other assets classifications.

**Interest Rate Risk:** Interest rate risk is the risk that an investment's value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using duration. To limit Treasury's exposure to fair value losses arising from rising interest rates, Treasury's long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. Treasury measures interest rate risk using option-adjusted duration, which takes into account embedded options affecting cash flows. Other investing organizations use less sophisticated measurements to manage interest rate risk; several limit the maximum term-to-maturity of investment purchases. Further, to avoid interest rate risk, the other organizations deliberately hold a given percentage of total investments in very short-term securities to avoid the potential need to sell such securities at a loss. At June 30, 2014, Treasury and the other investing organizations' fixed income portfolio, excluding Statutory Liquidator Fund and Tuition Account Investment Program, had the following option-adjusted durations (in years) by investment type:

## NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Investment Type	Amount of Securities with Duration	Option-Adjusted Duration	Amount of Securities with no Duration	Total
Asset backed securities.....	\$ 43,089	0.634	\$ 22,347	\$ 65,436
Commercial paper.....	6,154,594	0.234	-	6,154,594
Corporate obligations.....	1,324,278	4.787	229,550	1,553,828
Money market.....	2,375,244	0.083	24,125	2,399,369
Mortgage-backed securities.....	326,420	4.211	6,847	333,267
Mutual funds.....	-	-	43,773	43,773
Preferred securities.....	793	7.333	1,306	2,099
Private placements.....	191,225	3.662	23,728	214,953
Repurchase agreements.....	50,000	0.006	-	50,000
Securities lending collateral pool.....	377,253	0.008	-	377,253
Sovereign debt obligations.....	17,571	4.489	22,500	40,071
State and municipal obligations.....	70,819	7.491	203,903	274,722
U.S. Government agencies.....	21,413	5.049	4,934	26,347
U.S. Government sponsored enterprises.....	1,049,177	0.979	-	1,049,177
U.S. Treasury obligations.....	693,676	7.449	-	693,676
<b>Total.....</b>	<b>\$ 12,695,552</b>		<b>\$ 583,013</b>	<b>\$ 13,278,565</b>

Neither the Statutory Liquidator Fund nor the Tuition Account Investment Program use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for the Statutory Liquidator Fund:

Investment Type	No Maturity Date	Matures in less than 1 Year	Matures in 1 to 5 Years	Matures in 6 to 10 Years	Matures in 11 to 20 Years	Matures in 21 to 30 Years	Matures in 31 to 40 Years	Matures after 40 Years	Total
Annuity.....	\$ 1,162	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,162
Asset backed securities.....	-	-	156,894	2,540	396	-	-	-	159,830
Commonwealth investment program..	78,599	-	-	-	-	-	-	-	78,599
Corporate obligations.....	216	139,089	1,234,142	1,431	-	-	2,425	-	1,377,303
Money markets.....	346,684	-	-	-	-	-	-	-	346,684
Mortgage-backed securities.....	-	19	11,259	19,227	3,780	12,827	6,410	11,824	65,346
Preferred securities.....	-	-	1,510	-	-	-	-	-	1,510
Private placements.....	-	6,728	149,464	8,476	2,941	462	-	-	168,071
Sovereign debts.....	-	774	-	-	-	-	-	-	774
State & municipal obligations.....	-	3,297	7,154	-	-	-	-	-	10,451
U.S. Government agencies.....	-	-	111,150	-	-	-	-	-	111,150
U.S. Treasury obligations.....	288	-	673,677	-	-	-	-	-	673,965
Cash & Equivalents.....	53,659	-	-	-	-	-	-	-	53,659
Certificates of Deposit.....	-	7,679	5,981	-	-	-	-	-	13,660
<b>Total.....</b>	<b>\$ 480,608</b>	<b>\$ 157,586</b>	<b>\$ 2,351,231</b>	<b>\$ 31,674</b>	<b>\$ 7,117</b>	<b>\$ 13,289</b>	<b>\$ 8,835</b>	<b>\$ 11,824</b>	<b>\$ 3,062,164</b>

Within the Tuition Account Investment Program, the following mutual funds are exposed to interest rate risk:

	Amount	Average Duration	Average Effective Maturity
Vanguard Total Bond Market II Index Fund Institutional Shares.....	\$ 536,522	5.6 years	7.7 years
Vanguard Inflation-Protected Securities Fund Institutional Shares.....	38,920	8.0 years	8.5 years
Vanguard Prime Money Market Fund Institutional Shares.....	75,426	N/A	58 days

Based on specific investment objectives, the Pension Trust Funds may expose themselves to greater interest rate risk than Treasury or other investing organizations. Several investment choices, which may be selected by the DCP participants, including the Short-Term Money Market Fund, the Stable Value Account and the Aggregate Bond Index Fund, include a variety of fixed income securities. Each Pension Trust Fund uses option-adjusted duration (in years) as a measure of interest rate risk, as follows:

## NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Investment Type	SERS Amount	DCP Amount	SERS Option- Adjusted Duration	DCP Option- Adjusted Duration
Asset backed securities.....	\$ 77,380	\$ 93,658	1.30	3.60
Corporate obligations.....	800,839	335,885	5.60	4.80
Mortgage-backed securities.....	530,793	398,763	4.50	4.90
Other Investments <sup>a</sup> .....	(66)	-	N/A	N/A
Sovereign debt obligations.....	316,618	11,747	8.00	5.40
Treasury investment pool.....	1,568,708	59,649	0.10	0.10
U.S. Treasury obligations.....	1,726,087	373,041	6.90	4.30
U.S. Government sponsored enterprises.....	128,108	74,920	4.50	2.60
U.S. private placements.....	436,712	2,872	3.90	1.80
<b>Total.....</b>	<b>\$ 5,585,179</b>	<b>\$ 1,350,535</b>		

- a. Other Investments represents certain SERS securities and the value of swaps and futures agreements as of December 31, 2013, for which the duration is not available. In 2013, Foreign exchange contracts were the largest component of the other investment category and their net position was negative.

## PSERS:

Investment Type	Amount	Option-Adjusted Duration
Domestic asset-backed and mortgage-backed securities....	\$ 1,739,734	1.3
U.S. Government and agency obligations.....	1,523,266	7.6
Domestic corporate and taxable municipal bonds.....	1,103,634	3.3
Collective trust funds.....	8,194,002	4.1
International fixed income.....	1,165,580	5.3
PSERS Short-Term Investment Fund.....	3,872,501	0.1
<b>Total.....</b>	<b>\$ 17,598,717</b>	

Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole. In total, futures contracts have adjusted PSERS' total portfolio duration upward by 0.1 at June 30, 2014.

**Foreign Currency Risk:** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Treasury Department's policy requires all investments to be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. Among the other investing organizations, the Tobacco Settlement Fund and the **Tuition Payment Fund** are authorized to purchase securities denominated in a foreign currency. At June 30, 2014, the Tobacco Settlement Fund reported \$3,241 and the **Tuition Payment Fund** reported \$49,025 of foreign currency-denominated holdings. The foreign currency holdings make up nearly 2.9% of the **Tuition Payment Fund's** total investment portfolio and nearly 0.8% of the Tobacco Settlement Fund's total investment portfolio. The Treasury amounts invested, by currency, are as follows:

Foreign Currency	Equities	Private Equity	Preferred Securities	Total
British pound sterling.....	\$ 10,096	\$ -	\$ 9	\$ 10,105
Canadian dollar.....	1,011	-	-	1,011
Danish krone.....	1,663	-	-	1,663
Euro .....	12,957	3,188	-	16,145
Hong Kong dollar.....	6,333	-	-	6,333
Japanese yen.....	7,787	-	-	7,787
Swedish krona.....	1,418	-	-	1,418
Swiss franc.....	7,804	-	-	7,804
<b>Total.....</b>	<b>\$ 49,069</b>	<b>\$ 3,188</b>	<b>\$ 9</b>	<b>\$ 52,266</b>

Within the Tuition Account Investment Program, the Vanguard Total International Stock Index Fund (\$259,168) is exposed to foreign currency risk.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

Each Pension Trust Fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. The SERS is exposed to foreign currency risk primarily for equity securities at December 31, 2013 as follows:

<b>Foreign Currency</b>	<b>Short-Term Investments<sup>a</sup></b>	<b>Fixed income</b>	<b>Equities</b>	<b>Real Estate</b>	<b>Alternative Investments</b>	<b>Total</b>
Euro.....	\$ 7,483	\$ 17,741	\$ 1,072,160	\$ 22,112	\$ 877,349	\$ 1,996,845
British pound sterling.....	2,357	41,768	766,957	15,052	21,724	847,858
Japanese yen.....	6,029	1,916	604,980	52,696	-	665,621
Swiss franc.....	3,281	-	380,624	1,301	-	385,206
Hong Kong dollar.....	(230)	-	278,645	17,108	-	295,523
Canadian dollar.....	687	12,221	170,325	2,501	-	185,734
Australian dollar.....	115	1,390	165,021	16,420	-	182,946
South Korean won.....	7	9,031	147,531	-	-	156,569
Swedish krona.....	157	1,701	73,318	2,197	14,768	92,141
Mexican peso.....	147	31,878	28,539	25,898	-	86,462
New Taiwan dollar.....	963	-	77,392	-	-	78,355
Brazilian real.....	473	11,491	55,938	-	-	67,902
Singapore dollar.....	(153)	-	50,735	11,109	-	61,691
Norwegian krone.....	76	-	44,809	-	-	44,885
Danish krone.....	550	-	42,025	-	-	42,575
South African rand.....	231	9,893	32,386	-	-	42,510
Malaysian ringgit.....	30	1,859	25,473	-	-	27,362
Thai baht.....	86	-	20,111	-	-	20,197
Indonesian rupiah.....	49	5,913	8,340	-	-	14,302
New Turkish lira.....	80	2,749	8,349	-	-	11,178
Hungarian forint.....	364	8,414	1,694	-	-	10,472
Chilean peso.....	-	9,204	1,195	-	-	10,399
Indian rupee.....	-	9,187	1,072	-	-	10,259
Other currencies (10).....	1,693	3,009	34,854	-	-	39,556
<b>Total.....</b>	<b>\$ 24,475</b>	<b>\$ 179,365</b>	<b>\$ 4,092,473</b>	<b>\$ 166,394</b>	<b>\$ 913,841</b>	<b>\$ 5,376,548</b>

a. Includes receivables and payables as of December 31, 2013 for securities sold and purchased.

One of several investing choices that may be selected by the DCP participants is the European, Australian and Far East (EAFE) Equity Index Fund, which owns international equities and is managed by an external manager. The EAFE Equity Index Fund within the DCP seeks to track the more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim that are a part of the Morgan Stanley Capital International EAFE Index. At December 31, 2013, the DCP had the following currency exposures related to equity securities:

<b>Foreign Currency</b>	<b>Fair Value</b>
Euro.....	\$ 46,878
British pound sterling.....	33,558
Japanese yen.....	31,987
Swiss franc.....	13,643
Australian dollar.....	11,405
Swedish krona.....	4,952
Hong Kong dollar.....	4,342
Singapore dollar.....	2,255
Danish krone.....	1,795
Norwegian krone.....	1,251
New Israeli shekel.....	682
New Zealand dollar.....	178
<b>Total.....</b>	<b>\$ 152,926</b>



## NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The PSERS is exposed to foreign currency risk for equity and other securities as follows:

Foreign Currency	Equities	Fixed income	Alternative Investments and Real Estate	Short-term <sup>a</sup>	Currency Hedge	Total
Euro.....	\$ 676,095	\$ 211,282	\$ 2,991,462	\$ 50,951	\$ (1,941,107)	\$ 1,988,683
British pound sterling.....	702,457	54,218	56,465	51,156	49,029	913,325
Canadian dollar.....	270,360	27,266	48	6,681	(87,043)	217,312
Japanese yen.....	629,041	57,363	-	46,142	(535,133)	197,413
Australian dollar.....	213,541	20,878	-	5,992	(60,118)	180,293
South Korean won.....	114,168	43,328	-	542	2,719	160,757
Hong Kong dollar.....	144,030	-	-	1,806	177	146,013
Swedish krona.....	128,351	2,572	-	154	(9,108)	121,969
Taiwan new dollar.....	100,911	-	-	587	(386)	101,112
Other currencies.....	759,979	469,532	-	20,031	(180,847)	1,068,695
<b>Total.....</b>	<b>\$ 3,738,933</b>	<b>\$ 886,439</b>	<b>\$ 3,047,975</b>	<b>\$ 184,042</b>	<b>\$ (2,761,817)</b>	<b>\$ 5,095,572</b>

a. Includes investment receivables and payables.

## Securities Lending Program

The Treasury Department provides a securities lending program in which the various investments under custody of the Treasury Department participate. A contract between the Treasury department and its custodian, acting as a lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers in exchange for collateral.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. Securities lent consist of both domestic and foreign equity and fixed income securities. For securities lent which are not denominated in U.S. dollars or whose primary trading market is located outside the U.S., the fair value of collateral received must be at least 105% of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102%. Practically all collateral received consists of cash. A small portion of collateral received consists of letters of credit, U.S. Treasury, corporate and/or foreign debt obligations. Collateral is marked-to-market daily. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligation to borrowers are reported.

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. At June 30, 2014, 100% of the collateral was invested in repurchase agreements. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration, usually overnight. Therefore, the duration of lending agreements do not match the maturities of the investments made with the cash collateral. The resulting rate risk is mitigated by the lending agent's ability to reallocate lending agreements among program participants.

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 2014, there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

At June 30, 2014, the total fair value of the securities lent, along with the type of investments lent, were as follows:

Fund/Organization	Total Securities Lent	U.S.				Sovereign Debt Obligations	Exchange Traded
		Treasury Obligations	Government Sponsored Enterprises	Corporate Obligations	Equities		
Deferred Compensation Program.....	\$ 9,783	\$ -	\$ -	\$ 9,783	\$ -	\$ -	\$ -
State Employees' Retirement System.....	287,312	64,167	5,756	23,103	179,840	14,446	-
Public School Employees' Retirement System.....	2,305,108	581,410	1,537	38,472	1,602,305	45,097	36,287
Underground Storage Tank Indemnification Fund....	6,194	1,692	299	1,356	518	-	2,329
Workers' Compensation Security Trust Fund.....	50,427	765	170	6,748	855	-	41,889
<b>State Workers' Insurance Fund.....</b>	<b>80,008</b>	<b>66,668</b>	<b>6,976</b>	<b>1,339</b>	<b>4,553</b>	<b>-</b>	<b>472</b>
Other Postemployment Benefits Investment Pool..	52,223	-	-	-	-	-	52,223
Commonwealth Investment Program.....	85,117	8,280	6,307	6,950	38,720	-	24,860
<b>Tuition Payment Fund.....</b>	<b>123,725</b>	<b>11,606</b>	<b>908</b>	<b>419</b>	<b>11,601</b>	<b>-</b>	<b>99,191</b>

**Derivative and Other Similar Investments**

**Primary Government**

Treasury, through investment managers, enters into a variety of financial contracts, which include forward currency contracts. The Treasury is not a dealer, but an end user of these instruments. The contracts are used primarily to enhance performance and reduce volatility of the portfolio.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. To reduce the risk of counterparty non-performance, the investment manager generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts report below include forwards. The table below shows pending foreign currency contracts outstanding at June 30, 2014 which consists of "buy" contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. To reduce the risk of counterparty non-performance transactions have settlement dates, there is no expectation of holding these contracts until settlement.

Investment Derivatives	Changes in Fair Value		Fair Value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional
<b>Foreign Currency Forward Contracts</b>					
Governmental Activities.....	Investment income	\$ (259)	Investments	\$ (259)	\$ 40,067
Business-Type Activities.....		(67)		(67)	10,398
Fiduciary Funds.....		(27)		(27)	4,122
Component Units.....		(154)		(154)	23,798
<b>Total.....</b>		<b>\$ (507)</b>		<b>\$ (507)</b>	<b>\$ 78,385</b>

**State Employees' Retirement System (SERS)**

Within narrowly prescribed guidelines, SERS permits investment advisors to enter into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its portfolio. Typically, investment advisors enter into foreign exchange contracts to make payment for international investments, futures contracts to gain exposure to certain equity markets and to manage interest rate risk, and swaps to gain equity exposure.

SERS is exposed to counterparty credit risk on all open derivative positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of December 31, 2013, SERS' counterparty credit risk was not deemed significant. SERS mitigates its legal risk on investment holdings including derivatives by carefully reviewing and selecting investment advisors. It manages its exposure to market risk within risk limits set by management.

SERS advisors also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds and hedge funds. These funds invest in instruments directly, and indirectly through a

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

securities lending collateral pool, to gain foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The investment advisor uses these contracts primarily for its international investments to settle pending trades that occur more than two business days after trade date. The contracts are used by the investment advisor for the purpose of eliminating foreign exchange risk. As a matter of policy, the investment advisors enter into these contracts at their full discretion to protect currency fluctuations. To reduce the risk of counterparty nonperformance, the investment advisors generally enter into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the SERS net position and represents the fair value of the contracts on December 31. At December 31, 2013, SERS had contracts to purchase and sell, by major foreign currency, as follows:

<b>Foreign Currency</b>	<b>Purchase Contracts</b>	<b>Unrealized Gain/(Loss)</b>	<b>Sell Contracts</b>	<b>Unrealized Gain/(Loss)</b>
Chilean peso.....	\$ 9,204	\$ (186)	\$ -	\$ -
Indian rupee.....	9,187	81	-	-
South Korean won.....	9,031	112	-	-
Euro.....	7,887	47	47,195	(665)
British pound sterling.....	6,919	84	3,132	(25)
Indonesian rupiah.....	3,602	(392)	-	-
Canadian dollar.....	2,742	8	3,093	(22)
Australian dollar.....	1,444	(1)	34,862	953
Turkish lira.....	1,085	(50)	1,085	50
Swedish krona.....	1,060	19	4,052	(101)
Swiss franc.....	-	-	29,009	(912)
Polish zloty.....	-	-	11,039	(262)
New Zealand dollar.....	-	-	10,512	(43)
Norwegian krone.....	-	-	7,618	191
Other currencies (8).....	1,122	(1)	4,553	-
<b>Total.....</b>	<b>\$ 53,283</b>	<b>\$ (279)</b>	<b>\$ 156,150</b>	<b>\$ (836)</b>

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index to rebalance the total portfolio. The SERS exposure to futures contracts was not significant at December 31, 2013.

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, and credit worthiness. During 2013, the SERS used contracts with multiple counterparties as well as collateral posting requirements to manage its counterparty credit risk. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS uses credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability or vice versa. The SERS used interest rate swaps as a cost-effective way of gaining exposure to certain sectors of the fixed income market. The SERS' exposure to swap agreements was not significant at December 31, 2013.

The SERS mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting investment advisors and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

**Deferred Compensation Program (DCP)**

The DCP, through the Mellon Capital Management (MCM) managed accounts, indirectly holds certain derivative financial instruments. The derivatives most commonly used by MCM include forwards, futures, options, and swaps. MCM may take long or short positions in derivative instruments for various purposes. The notional value of these instruments is not significant as of December 31, 2013.

Certain collective funds may utilize exchange-traded and over-the-counter (OTC) derivative instruments including, but not limited to, fixed income, equity, currency and commodity futures, exchange-traded and OTC options, swaps, and currency forwards. MCM has instituted policies and procedures designed to ensure that derivative transactions are in keeping with the overall strategy and that such transactions are properly reviewed and monitored. MCM has also established restrictions and processes to assist with minimizing the impact of liquidity risk and credit risk in the context of the collective fund's total portfolio. Counterparty risk is controlled through regular credit evaluations and approvals, along with guidelines and procedures designed to limit the impact of counterparty risk.

**Public School Employees' Retirement System (PSERS)**

The PSERS enters into a variety of financial contracts, which include options and futures. The PSERS also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury strips. The PSERS is not a dealer, but an end user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The PSERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The PSERS generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of PSERS' involvement in the various types and uses of derivative financial instruments and do not measure the PSERS' exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the PSERS' derivative financial instruments at June 30, 2014:

<b>Type of Derivative</b>	<b>Notional Value</b>
Futures contracts - long.....	\$ 3,996,783
Futures contracts - short.....	233,254
Foreign exchange forward and spot contracts, gross.....	5,644,996
Swaps - total return type.....	3,203,881

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the PSERS enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the PSERS has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2014 represent a restriction on the amount of assets available as of fiscal year-end for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The PSERS generally uses exchange listed currency, index, stock, and futures options.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. To reduce the risk of counterparty non-performance, the investment managers generally enter into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts reported primarily include forwards. The \$5,644,996 of foreign currency contracts outstanding at June 30, 2014 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$1,465,116 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$4,179,880. The unrealized loss on contracts of \$(32,195) at June 30, 2014 is included in the Statement of Net Position and represents the fair value of the contracts.

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes, or interest rates. During the year ended June 30, 2014 the PSERS entered into total return type swaps. Under the total return type swap arrangements, the PSERS receives the net return of certain equity securities or indexes in exchange for a short-term rate minus a spread or a predetermined fixed charge. The receivable on the total return type swap contracts of \$87,881 at June 30, 2014 is included in the Statement of Net Position and represents the fair value of the contracts. The contracts have varying maturity dates ranging from July 1, 2014 to July 2, 2015.

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2014 is \$990,794.

The PSERS invests in U.S. Treasury strips which essentially act as zero coupon bonds and are subject to market volatility from a rise or drop in interest rates.

Through certain collective trust funds, the PSERS also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only strips; and CMOs, to enhance the performance and/or reduce the volatility of their portfolios.

## NOTE E – CAPITAL ASSETS

Changes in governmental activities capital assets for the fiscal year ended June 30, 2014 are as follows:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 571,582	\$ 10,419	\$ 10,405	\$ 571,596
Highway right-of-way.....	2,113,828	96,077	-	2,209,905
General construction in progress.....	766,833	648,057	545,635	869,255
Transportation construction in progress.....	2,612,436	1,697,365	1,505,422	2,804,379
Subtotal.....	6,064,679	2,451,918	2,061,462	6,455,135
<b>Depreciable and Amortizable Capital Assets:</b>				
Buildings and building improvements.....	7,263,783	103,112	63,222	7,303,673
Land improvements.....	772,100	104,208	9,453	866,855
Machinery and equipment.....	1,222,748	134,803	43,802	1,313,749
Bridge infrastructure.....	12,124,878	752,631	96	12,877,413
Highway infrastructure.....	25,280,363	752,791	2,200	26,030,954
Waterway infrastructure.....	26,277	138	-	26,415
Other infrastructure.....	190,540	3,011	-	193,551
Software.....	179,030	205,732	-	384,762
Other intangibles.....	200	-	-	200
Subtotal.....	47,059,919	2,056,426	118,773	48,997,572
<b>Less accumulated depreciation and amortization for:</b>				
Buildings and building improvements.....	2,755,334	163,841	15,275	2,903,900
Land Improvements.....	323,255	23,922	778	346,399
Machinery and equipment.....	675,158	99,298	36,993	737,463
Bridge infrastructure.....	2,900,964	317,196	65	3,218,095
Highway infrastructure.....	13,205,163	985,131	486	14,189,808
Waterway infrastructure.....	2,856	534	-	3,390
Other infrastructure.....	36,223	9,750	-	45,973
Software.....	63,837	78,997	-	142,834
Other intangibles.....	123	20	-	143
Subtotal.....	19,962,913	1,678,689	53,597	21,588,005
Total depreciable and amortizable capital assets, net.....	27,097,006	377,737	65,176	27,409,567
Total governmental activities capital assets, net.....	\$ 33,161,685	\$ 2,829,655	\$ 2,126,638	\$ 33,864,702

Depreciation and amortization expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2014 is as follows:

	Governmental Activities Capital Assets
Direction and supportive services.....	\$ 56,321
Protection of persons and property.....	172,816
Public education.....	32,884
Health and human services.....	16,733
Economic development.....	234
Transportation.....	1,378,194
Recreation and cultural enrichment.....	21,507
Total depreciation and amortization expense.....	\$ 1,678,689

## NOTE E – CAPITAL ASSETS (continued)

Changes in business-type activities capital assets for the fiscal year ended June 30, 2014 are as follows:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Non-Depreciable Capital Assets:				
Land.....	\$ 129,569	\$ 11,980	\$ -	\$ 141,549
General construction in progress.....	27,701	30,688	28,162	30,227
Subtotal.....	157,270	42,668	28,162	171,776
Depreciable and Amortizable Capital Assets:				
Buildings and building improvements.....	367,418	26,251	496	393,173
Land Improvements.....	42,890	-	-	42,890
Machinery and equipment.....	196,207	13,864	14,956	195,115
Software.....	19,134	748	-	19,882
Other intangibles.....	200	-	-	200
Subtotal.....	625,849	40,863	15,452	651,260
Less accumulated depreciation and amortization for:				
Buildings and building improvements.....	151,384	16,340	458	167,266
Land Improvements.....	4,750	2,145	-	6,895
Machinery and equipment.....	136,945	13,228	14,860	135,313
Software.....	9,846	4,223	-	14,069
Other intangibles.....	122	67	-	189
Subtotal.....	303,047	36,003	15,318	323,732
Total depreciable and amortizable capital assets, net.....	322,802	4,860	134	327,528
Total business-type activities capital assets, net.....	\$ 480,072	\$ 47,528	\$ 28,296	\$ 499,304

Construction in progress included in governmental activities capital assets at June 30, 2014 includes project information as follows:

	Project Authorization	Amounts Expended at June 30, 2014	Authorization Available
General Construction in Progress:			
Capitol Complex.....	\$ 471,087	\$ 147,891	\$ 323,196
Department of Corrections Institutions.....	519,426	268,759	250,667
Educational Institutions.....	580,017	182,103	397,914
Environmental Protection.....	14,711	4,282	10,429
State Parks and Forests.....	215,378	38,667	176,711
Veterans Homes and Military Armories.....	124,593	13,452	111,141
Department of Public Welfare Institutions.....	102,231	81,205	21,026
Transportation Facilities.....	135,216	30,570	104,646
Historical and Museum Commission Facilities.....	41,667	16,716	24,951
State Police Facilities.....	57,207	6,316	50,891
Agriculture Facilities.....	113,926	1,300	112,626
Department of Labor and Industry Software.....	1,984	1,635	349
Other.....	149,306	76,359	72,947
Total general construction in progress.....	2,526,749	869,255	1,657,494
Highway and Bridge Construction in Progress.....	4,183,308	2,804,379	1,378,929
Total construction in progress.....	\$ 6,710,057	\$ 3,673,634	\$ 3,036,423

The Commonwealth's initial valuation of governmental activities capital assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986, governmental activities capital asset acquisitions are reported at cost or, for donations or confiscations, at fair market value. At June 30, 2014 the remaining amount of governmental activities capital assets related to the initial June 30, 1986 valuation amounted to \$1,574,000. The initial June 30, 1986 valuation did not include highway, bridge or waterway infrastructure. Such infrastructure was first reported in the June 30, 2002 basic financial statements, retroactive to July 1, 1980.

## NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS

## Tuition Benefits Payable

The reported liability for tuition benefits payable of \$1,541,036 of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2014 is based on several actuarial assumptions, including those related to tuition cost increases, investment experience, income from account maintenance fees, and program expenses for the Pennsylvania 529 Guaranteed Savings Plan (GSP). The assumed rate of return on long-term investments is 7.685%.

Changes in tuition benefits payable are as follows:

Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014	Current Due within One Year	Non Current Due after One Year
\$ 1,481,056	\$ 266,999	\$ 207,019	\$ 1,541,036	\$ 233,298	\$ 1,307,738

## Insurance Loss Liability

The reported insurance loss liability of the **State Workers' Insurance Fund (SWIF)**, an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 2.00 percent at December 31, 2013 and December 31, 2012. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the calendar years ended December 31, 2013 and 2012, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability.

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2013	\$ 1,587,276	\$ 225,901	\$ 7,793	\$ 43,931	\$ 199,256	\$ 1,577,783
2012	1,490,099	201,992	127,860	37,674	195,001	1,587,276

The current portion of the total **SWIF** insurance loss liability is \$232,674 and the noncurrent portion is \$1,345,109. Additionally, nonmajor Enterprise funds reported a noncurrent insurance loss liability of \$659 at June 30, 2014. Total reported current insurance loss liability amounts to \$232,674 and total noncurrent insurance loss liability amounts to \$1,345,768 at June 30, 2014.

## Compensated Absences Liability

The reported compensated absences liability for the Enterprise Funds totaled \$37,007 at June 30, 2014. Of that amount, the liability is primarily owed by the State Stores Fund (\$28,197), the **SWIF** (\$2,298), and the **State Lottery Fund** (\$3,061). The following summary provides aggregated information reported for June 30, 2013 compensated absences liabilities; additions and reductions during the fiscal year ended June 30, 2014 and reported compensated absences liabilities at June 30, 2014:

Liability at June 30, 2013	Additions	Reductions	Liability at June 30, 2014
\$ 36,811	\$ 23,857	\$ 23,661	\$ 37,007

The current portion of the total compensated absences liability for Enterprise Funds is \$6,273; the noncurrent portion is \$30,734.



## NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS (continued)

## Revenue Bonds Payable

Revenue bond obligations of the Enterprise Funds (including the Philadelphia Regional Port Authority and the **Commonwealth Financing Authority**, blended component units) at June 30, 2014 and changes during the fiscal year ended June 30, 2014 are as follows:

	Issue Dates	Interest Rates	Maturity Dates Through	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
<b>REVENUE BONDS PAYABLE</b>							
Philadelphia Regional Port Authority.....	2008	3.00-5.00%	2021	\$ 30,395	\$ -	\$ 3,180	\$ 27,215
Unemployment Compensation Fund.....	2012	1.00-5.00%	2024	2,527,405	-	122,300	2,405,105
Commonwealth Financing Authority.....	2005-13	0.55-6.40%	2042	1,667,780	-	55,870	1,611,910
Total principal obligations.....				4,225,580	-	181,350	4,044,230
Less: unamortized bond discount.....				(1,025)		59	(966)
Add: unamortized bond premium*.....				413,092	-	74,924	338,168
<b>TOTAL REVENUE BONDS PAYABLE**.....</b>				<b>\$ 4,637,647</b>	<b>\$ -</b>	<b>\$ 256,333</b>	<b>\$ 4,381,432</b>

The following table presents annual principal and interest payments for long-term debt outstanding for revenue bonds for the Enterprise funds:

	2015	2016	2017	2018	2019	2020-24	2025-29
Philadelphia Regional Port Authority..	\$ 4,608	\$ 4,607	\$ 4,607	\$ 4,609	\$ 4,605	\$ 9,214	\$ -
Unemployment Compensation Fund....	288,298	297,720	317,270	328,826	340,676	1,462,381	-
Commonwealth Financing Authority....	147,755	147,627	147,466	147,301	147,109	732,237	535,110
Total Principal and Interest.....	440,661	449,954	469,343	480,736	492,390	2,203,832	535,110
Less: Interest Payments.....	(199,221)	(188,809)	(176,228)	(161,981)	(145,865)	(451,802)	(183,015)
<b>TOTAL PRINCIPAL OBLIGATIONS.....</b>	<b>\$ 241,440</b>	<b>\$ 261,145</b>	<b>\$ 293,115</b>	<b>\$ 318,755</b>	<b>\$ 346,525</b>	<b>\$ 1,752,030</b>	<b>\$ 352,095</b>
	2030-34	2035-39	2040-42	Total			
Philadelphia Regional Port Authority..	\$ -	\$ -	\$ -	\$ 32,250			
Unemployment Compensation Fund....	-	-	-	3,035,171			
Commonwealth Financing Authority....	342,344	243,784	50,110	2,640,843			
Total Principal and Interest.....	342,344	243,784	50,110	5,708,264			
Less: Interest Payments.....	(105,764)	(47,054)	(4,295)	(1,664,034)			
<b>TOTAL PRINCIPAL OBLIGATIONS.....</b>	<b>\$ 236,580</b>	<b>\$ 196,730</b>	<b>\$ 45,815</b>	<b>\$ 4,044,230</b>			

\*Due to the implementation of GASB Statement 65, the beginning balance for the unamortized bond premium portion of revenue bonds payable has been adjusted to report the gross bond premium. The beginning balance was presented net of bond issuance costs which now have been written off.

\*\*The beginning balance for total revenue bonds payable has been adjusted due to the implementation of GASB Statement 65 to reflect the reclassification of deferred net refunded loss from a component of revenue bonds payable to a deferred outflow.

**NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS (continued)**

**Demand bonds payable**

On October 18, 2012 the Department of Labor & Industry (Department), through the authorization of the Pennsylvania Economic Development Financing Authority (PEDFA), issued Unemployment Compensation Variable Rate Demand Revenue Bonds, Series 2012C, in the amount of \$300,000. The Series 2012C bonds bear interest at a weekly interest rate which is set each week by the remarketing agent. Since the bonds were issued, the approximate average weekly rate has been 0.88%. The payment of the principal and Tender Price of and interest on the Series C Bonds were secured by a direct-pay letter of credit (LOC) issued by the bank, and is set to expire on October 1, 2015, unless extended or earlier terminated. Related commitment fees relative to the letter of credit is 0.30% payable on each July 1 and January 1. There were no liquidity drawings as of the financial reporting date.

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2014</u>
Bonds payable:				
UC variable rate demand revenue bonds Series C				
due 2024 at weighted-average rates of				
of 0.88% as of June 30, 2014	\$ 300,000	\$ -	\$ 133,365	\$ 166,635

The demand bonds issuance contains a take-out agreement that allows the bondholders to demand early repayment. To mitigate the risk of raising revenue unexpectedly to meet these demands, the PEDFA has entered into a contract to cover the redemption of these obligations should the bondholders exercise the take-out agreement. The provisions of the arrangement are as follows: If after 180 days, the Department fails to reimburse any disbursements made in connection with any Liquidity Drawings a Term-Out period will commence. During this period, the pledged bonds will bear interest at the Term-Out Interest rate and will be redeemed in ten (10) equal, semi-annual installments. The Term-Out interest rate means 2% plus the higher of (1) the Prime Rate in effect or (2) Federal Fund Rate plus 3%; or (3) 7.5%.

The debt service requirements if the take-out agreement is exercised are as follows:

Assumed Term-Out Commencement Date				7/1/2014
<u>Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Semi-Annual Payment</u>
1/1/2015	\$ 16,664	9.5	\$ 7,915	\$ 24,579
7/1/2015	16,664	9.5	7,124	23,788
1/1/2016	16,664	9.5	6,332	22,996
7/1/2016	16,664	9.5	5,541	22,205
1/1/2017	16,664	9.5	4,749	21,413
7/1/2017	16,664	9.5	3,958	20,622
1/1/2018	16,664	9.5	3,166	19,830
7/1/2018	16,664	9.5	2,375	19,039
1/1/2019	16,664	9.5	1,583	18,247
7/1/2019	16,659	9.5	792	17,451
<b>TOTALS</b>	<u>\$ 166,635</u>		<u>\$ 43,535</u>	<u>\$ 210,170</u>

## NOTE G - RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES

**Taxes Receivable:** Taxes receivable, by tax type, reported on the Statement of Net Position at June 30, 2014 consisted of the following:

Statement of Net Position			
Governmental Activities			
	Current	Noncurrent	Total
Sales and use.....	\$ 667,669	\$ 167,149	\$ 834,818
Personal income	548,283	432,597	980,880
Corporation.....	296,870	655,321	952,191
Liquid fuels.....	222,488	-	222,488
Inheritance.....	315,234	104,126	419,360
Cigarette.....	38,879	-	38,879
Other.....	25,700	-	25,700
Total.....	<u>\$ 2,115,123</u>	<u>\$ 1,359,193</u>	<u>\$ 3,474,316</u>

Taxes receivable reported on the Balance Sheet-Governmental Funds and the Statement of Fiduciary Net Position at June 30, 2014 consisted of the following:

Balance Sheet-Governmental Funds					Statement of Fiduciary Net Position	
General Fund					Motor License Fund	Nonmajor Governmental Funds
Expected to be Collected:						
From						
September 1, 2014						
By	through	After			Collected by	Collected by
August 31, 2014	June 30, 2015	June 30, 2015	Total		August 31, 2014	August 31, 2014
Sales and use....	\$ 605,533	\$ 62,136	\$ 167,149	\$ 834,818	\$ -	\$ -
Personal income	339,906	208,377	432,597	980,880	-	-
Corporation.....	49,184	247,686	655,321	952,191	-	-
Liquid fuels.....	-	-	-	-	222,488	-
Inheritance.....	140,322	174,912	104,126	419,360	-	-
Cigarette.....	38,879	-	-	38,879	-	-
Other.....	-	-	-	-	-	25,700
Total.....	<u>\$ 1,173,824</u>	<u>\$ 693,111</u>	<u>\$ 1,359,193</u>	<u>\$3,226,128</u>	<u>\$ 222,488</u>	<u>\$ 25,700</u>

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$2,052,304 expected to be collected after August 31, 2014 is reported as deferred inflows of resources. The total amount of taxes receivable reported on the governmental funds balance sheet, \$2,115,123 (\$1,866,935 reported in the **General Fund**, \$222,488 reported in the **Motor License Fund**, and \$25,700 reported in nonmajor governmental funds), expected to be collected from July 1, 2014 through June 30, 2015 is also reported as current taxes receivable in governmental activities on the Statement of Net Position. The remaining **General Fund** taxes receivable of \$1,359,193 reported on the governmental funds balance sheet expected to be collected after June 30, 2015 is reported as noncurrent taxes receivable in governmental activities on the Statement of Net Position. All of the revenue associated with the taxes receivable reported in governmental activities on the Statement of Net Position is reported as tax revenue in governmental activities on the Statement of Activities.

**NOTE G – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)**

**Loans Receivable:** Loans receivable at June 30, 2014 consisted of the following:

	Governmental Activities	Business Type Activities	
	General Fund	Commonwealth Financing Authority	Nonmajor Enterprise Funds
Economic development loans.....	\$ 77,644	\$ 313,313	\$ 185,437
Volunteer fire company loans.....	-	-	76,231
Environmental program loans.....	5,153	-	-
School district loans.....	14,000	-	-
Other notes and loans.....	110	-	-
	<u>96,907</u>	<u>313,313</u>	<u>261,668</u>
Less: allowance for uncollectible amounts.....	(12,968)	(10,860)	(23,436)
Loans receivable, net.....	<u>\$ 83,939</u>	<u>\$ 302,453</u>	<u>\$ 238,232</u>

The **General Fund** reported \$77,403 in loans due after June 30, 2015, the **Commonwealth Financing Authority** (a blended component unit) reported \$284,034 in loans due after June 30, 2015, and nonmajor Enterprise funds reported \$196,382 in loans due after June 30, 2015.

**Governmental Funds Unearned Revenue:** The **General Fund**, Special Revenue Funds, and Debt Service Funds reported unearned revenue. The following chart provides the portion of total revenue which was not yet earned as of June 30, 2014:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Unearned revenue.....	\$ <u>37,015</u>	\$ <u>83,225</u>	\$ <u>3,649</u>

**Deferred Outflows and Deferred Inflows of Resources:** On the Statement of Net Position, Governmental Activities and the Philadelphia Regional Port Authority (a blended component unit) reported deferred outflows of resources for the fiscal year ended June 30, 2014 related to deferred losses on refunding of prior year debt instruments. The deferred losses on refunding of debt results from the difference in the carrying value of the refunded debt and its reacquisition price. The total amount of deferred outflows reported at June 30, 2014 was:

	Governmental Activities	Business-type Activities Nonmajor Enterprise Fund
<b>Deferred Outflows</b>		
Refundings of debt.....	\$ 175,240	\$ 1,625

**NOTE G – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)**

On the Balance Sheet for Governmental Funds, a modified accrual basis, the **General Fund**, the **Motor License Fund** and several nonmajor Special Revenue Funds reported unavailable revenue as deferred inflows of resources. The total deferred inflows reported at June 30, 2014 was:

	<b>General Fund</b>	<b>Motor License Fund</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>
<b><u>Deferred Inflows</u></b>				
Unavailable revenue...	\$ 2,633,813	\$ 658	\$ 181,139	\$ 2,815,610

## NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

## Statement of Net Position

## Internal Balances

In the Statement of Net Position, reported internal balances of \$2,099/(\$1,620) for governmental activities/business-type activities differ by \$479 because the **State Workers' Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2013.

## Fund Financial Statements

## Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2014 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$87,697 and \$1,564; aggregate nonmajor enterprise funds receivables amount to \$14,678 and \$10; aggregate internal service funds receivables amount to \$30,969 and \$96:

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
<b>General Fund</b> .....	\$ 67,138	\$ 223,285	\$ 177,336	\$ 2,256
<u>Special Revenue:</u>				
<b>Motor License Fund</b> .....	42,080	20	66,214	11,851
Public Transportation Trust Fund.....	48,097	-	15	-
Gaming Fund.....	41	-	6,562	18,437
Vocational Rehabilitation Fund.....	64	-	2,538	-
Emergency Medical Services Operating Fund.....	2,231	-	-	-
Agricultural Conservation Easement Purchase Fund.....	10,243	-	-	-
Marcellus Shale Fund.....	-	-	448	18,034
Insurance Regulation and Oversight Fund.....	806	-	6,541	-
Other Funds.....	7,551	-	5,648	6
Special Revenue subtotal.....	111,113	20	87,966	48,328
<u>Debt Service:</u>				
Capital Debt Fund.....	1,054	-	-	-
PA Infrastructure Investment Authority Redemption Fund.....	-	424	-	-
Water and Sewer Assistance Bond Sinking Fund.....	-	500	-	-
Debt Service subtotal.....	1,054	924	-	-
<u>Capital Projects:</u>				
Capital Facilities Fund.....	1,981	640	32,774	122,000
Keystone Recreation, Park and Conservation Fund.....	6,824	-	658	-
Public Transportation Assistance Fund.....	8,805	-	897	-
Capital Projects subtotal.....	17,610	640	34,329	122,000
<u>Enterprise:</u>				
<b>Unemployment Compensation Fund</b> .....	2,672	614	2,204	-
<b>State Lottery Fund</b> .....	26	-	1,606	-
<b>Commonwealth Financing Authority</b> .....	4,153	-	453	-
State Stores Fund.....	257	-	12,396	-
Rehabilitation Center Fund.....	2,049	10	121	-
Philadelphia Regional Port Authority.....	12,358	-	59	-
Other Funds.....	14	-	49	23
Enterprise subtotal.....	21,529	624	16,888	23
<u>Internal Service:</u>				
Purchasing Fund.....	24,043	95	4,440	2
Manufacturing Fund.....	6,926	1	207	-
Internal Service subtotal.....	30,969	96	4,647	2

## NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

FUND TYPE/FUND <u>PRIMARY GOVERNMENT</u>	<u>DUE FROM</u>		<u>DUE TO</u>	
	<u>OTHER</u>	<u>COMPONENT</u>	<u>OTHER</u>	<u>COMPONENT</u>
	<u>FUNDS</u>	<u>UNITS</u>	<u>FUNDS</u>	<u>UNITS</u>
<u>Fiduciary - Pension Trust:</u>				
State Employees' Retirement System.....	6,607	25,234	-	-
Deferred Compensation Fund.....	-	-	111	-
Public School Employees' Retirement System.....	3,402	-	660	-
Fiduciary - Pension Trust subtotal.....	10,009	25,234	771	-
Total primary government.....	<u>\$ 259,422</u>	<u>\$ 250,823</u>	<u>\$ 321,937</u>	<u>\$ 172,609</u>

DISCRETELY PRESENTED <u>COMPONENT UNITS</u>	<u>DUE FROM</u>		<u>DUE TO</u>	
	<u>PRIMARY</u>	<u>COMPONENT</u>	<u>PRIMARY</u>	<u>COMPONENT</u>
	<u>GOVERNMENT</u>	<u>UNITS</u>	<u>GOVERNMENT</u>	<u>UNITS</u>
Pennsylvania Turnpike Commission.....	\$ 9,811	\$ -	\$ -	\$ -
Pennsylvania Housing Finance Agency.....	-	3	24	61
Pennsylvania Higher Education Assistance Agency.....	2	-	176	-
Pennsylvania Infrastructure Investment Authority.....	33,034	61	215,629	3
State System of Higher Education.....	400	-	1,120	-
Pennsylvania Convention Center Authority.....	125,437	-	-	-
Pennsylvania eHealth Partnership Authority.....	2,000	-	8,567	-
Other component units.....	-	-	9	-
Total component units.....	<u>\$ 170,684</u>	<u>\$ 64</u>	<u>\$ 225,525</u>	<u>\$ 64</u>

The amount of total reported interfund receivables of \$680,993 does not agree with total reported interfund payables of \$720,135 at June 30, 2014 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2014. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2014; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, Pension Trust Funds, and the **State Workers' Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2013. The following presents a reconciliation of interfund balances reported at June 30, 2014 and those amounts that would have been reported if all Funds reported at the same fiscal year-end:

	<u>Governmental</u>	<u>Proprietary</u>	<u>Fiduciary</u>	<u>Component</u>	
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Units</u>	<u>Total</u>
Due from other funds.....	\$ 195,668	\$ 46,976	\$ 9,876	\$ -	\$ 252,520
Due from pension trust funds.....	1,247	5,522	133	-	6,902
Due from component units.....	224,869	720	25,234	64	250,887
Due from primary government.....	-	-	-	170,684	170,684
Total.....	<u>\$ 421,784</u>	<u>\$ 53,218</u>	<u>\$ 35,243</u>	<u>\$ 170,748</u>	<u>\$ 680,993</u>
<b>Reported Interfund Receivables.....</b>					<b>\$ 680,993</b>
State Employees' Retirement System increase in receivables from January 1, 2014 through June 30, 2014.....					225
Pennsylvania Turnpike Commission increase in receivables from June 1, 2014 through June 30, 2014.....					1,925
<b>State Workers' Insurance Fund increase in receivables from January 1, 2014 through June 30, 2014.....</b>					<b>806</b>
Interfund receivables reported as taxes receivable and accounts receivable by fiduciary funds.....					19,356
Payroll accrual at June 30, 2014 - receivables attributable to State Employees' Retirement System.....					26,637
<b>Reconciled Interfund Receivables.....</b>					<b>\$ 729,942</b>

**NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)**

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 223,965	\$ 19,242	\$ 489	\$ -	\$ 243,696
Due to pension trust funds.....	75,666	2,293	282	-	78,241
Due to component units.....	172,584	25	-	64	172,673
Due to primary government.....	-	-	-	225,525	225,525
Total.....	<u>\$ 472,215</u>	<u>\$ 21,560</u>	<u>\$ 771</u>	<u>\$ 225,589</u>	<u>\$ 720,135</u>
<b>Reported Interfund Payables.....</b>					720,135
State Employees' Retirement System increase in payables from January 1, 2014 through June 30, 2014.....					719
Deferred Compensation Fund decrease in payables from January 1, 2014 through June 30, 2014.....					(111)
Pennsylvania Turnpike Commission increase in payables from June 1, 2014 through June 30, 2014.....					145
<b>State Workers' Insurance Fund increase in payables from January 1, 2014 through June 30, 2014.....</b>					242
Interfund payables reported as accounts payable by fiduciary funds.....					8,812
<b>Reconciled Interfund Payables.....</b>					<u>\$ 729,942</u>

**Advances – Fund Financial Statements**

At June 30, 2014, the **General Fund** reported Advances to Other Funds of \$4,475. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund (SWIF)**, an Enterprise Fund; and \$2,175 to the **Motor License Fund**, a Special Revenue Fund. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **SWIF**, which reported an advance of \$2,216 at its fiscal year ended December 31, 2013. At June 30, 2014 the Workers' Compensation Security Fund and the Hazardous Sites Cleanup Fund, Special Revenue Funds, reported Advances to Other Funds of \$750 and \$3,000, respectively; these amounts were advanced to the **General Fund** and the Small Business First Fund, an Enterprise Fund. All amounts advanced are expected to be repaid subsequent to June 30, 2015. The Underground Storage Tank Indemnification Fund, an Agency Fund, reported a \$67,500 statutory advance to the **General Fund** at June 30, 2014; no repayment is expected to occur during the fiscal year ending June 30, 2015.

**Transfers**

A summary of transfers reported for the fiscal year ended June 30, 2014 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,449,509 during the fiscal year ended June 30, 2014; aggregate nonmajor governmental fund transfers to other funds amounted to \$781,856. Aggregate nonmajor proprietary fund transfers from other funds amounted to \$56,238, while aggregate nonmajor proprietary fund transfers to other funds amounted to \$82,474.



## NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

PRIMARY GOVERNMENT	TRANSFERS	TRANSFERS
	IN	OUT
General Fund.....	\$ 485,641	\$ 1,211,097
<u>Special Revenue:</u>		
Motor License Fund.....	21,092	66,440
Public Transportation Trust Fund.....	110,979	-
Gaming Fund.....	-	349,079
Environmental Stewardship Fund.....	28,210	49,981
Vocational Rehabilitation Fund.....	40,473	-
Agricultural Conservation Easement Purchase Fund.....	8,652	-
State Farm Products Show Fund.....	4,000	-
Recycling Fund.....	1,000	-
Oil and Gas Lease Fund.....	-	105,942
Hazardous Sites Cleanup Fund.....	-	5,000
Marcellus Shale Fund.....	20,000	105,374
Insurance Regulation and Oversight Fund.....	9,560	6,448
State Racing Fund.....	5,801	-
Fish and Boat Fund.....	1,531	-
Multimodal Transportation Fund.....	-	2,500
Other Funds.....	-	793
Special Revenue subtotal.....	251,298	691,557
<u>Debt Service:</u>		
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	7,224	-
Capital Debt Fund.....	1,129,031	-
Growing Greener Bond Sinking Fund.....	42,735	-
Water Supply and Wastewater Treatment Sinking Fund.....	14,815	-
Persian Gulf Veterans' Compensation Bond Sinking Fund.....	506	-
Water and Sewer Assistance Bond Sinking Fund.....	24,992	-
Debt Service subtotal.....	1,219,303	-
<u>Capital Projects:</u>		
Capital Facilities Fund.....	-	53,616
Water Supply and Wastewater Treatment Fund.....	-	85,100
Public Transportation Assistance Fund.....	-	18,023
Capital Projects subtotal.....	-	156,739
<u>Enterprise:</u>		
Unemployment Compensation Fund.....	-	40,000
State Lottery Fund.....	166,500	222,956
Commonwealth Financing Authority.....	225,843	-
State Stores Fund.....	-	82,474
Philadelphia Regional Port Authority.....	56,238	-
Enterprise subtotal.....	448,581	345,430
Total transfers, fund financial statements.....	2,404,823	2,404,823
Less: net elimination of governmental fund transfers.....	(2,301,672)	(2,301,672)
Total transfers, Statement of Activities.....	\$ 103,151	\$ 103,151

**NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)**

**Primary Government Transactions with Discretely Presented Component Units**

**Financial Support Provided to:**

**Major Discretely Presented Component Units**

During the fiscal year ended June 30, 2014 (May 31, 2014 for Pennsylvania Turnpike Commission), the Commonwealth provided financial support to major discretely presented component units, reported by the component units as follows:

State System of Higher Education (appropriations, grants and contracts) .....	\$ 536,948
Pennsylvania Higher Education Assistance Agency (grants). ....	397,293
Pennsylvania Turnpike Commission (capital contributions) .....	93,089
Pennsylvania Infrastructure Investment Authority (capital contributions and other state receipts) .....	31,889
Pennsylvania Housing Finance Agency (program income and fees; other liabilities) .....	19,517

**Nonmajor Discretely Presented Component Units**

During the fiscal year ended June 30, 2014, the Commonwealth provided financial support to nonmajor component units by appropriations, as follows:

Ben Franklin Technology Development Authority.....	\$ 14,500
Thaddeus Stevens College of Technology .....	10,332

**Financial Support Provided to the Commonwealth**

During its fiscal year ended May 31, 2014, the Pennsylvania Turnpike Commission incurred additional debt in order to provide \$200,000 to the **Motor License Fund** and \$250,000 to the Public Transportation Trust Fund under the statutory provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the Pennsylvania Turnpike Commission and the Commonwealth.

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS****Pension Systems**

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth and public school employees. Generally, Commonwealth employees are members of the State Employees' Retirement System (SERS) and public school employees are members of the Public School Employees' Retirement System (PSERS). Both the SERS and the PSERS are reported as Pension Trust Funds classified as Fiduciary Funds. The SERS and the PSERS issue stand-alone, audited financial statements which are available at [www.sers.state.pa.us](http://www.sers.state.pa.us) and [www.psers.state.pa.us](http://www.psers.state.pa.us), respectively. Written requests for SERS or PSERS financial statements should be directed to the following addresses:

State Employees' Retirement System  
30 North Third Street, Suite 150  
Harrisburg, PA 17101-1716

Public School Employees' Retirement System  
Bureau of Communications  
P.O. Box 125  
Harrisburg, PA 17108-0125

**State Employees' Retirement System**

**Plan Description:** The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement plan established to provide pension benefits for Commonwealth employees and certain other organizations. At December 31, 2013 there were 104 employer state agencies and other organizations participating in the SERS.

**Retirement Benefits:** Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish and amend plan benefit provisions. The SERS provides retirement, death, and disability benefits. Prior to Act 2010-120 (Act 120), employees who retire at age 60 with 3 years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50, with at least 3 years of service. Act 120 preserved all benefits in place for existing members but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2 percent of their final average salary instead of the previous 2.5 percent. The new vesting period changed from five to ten years of credited service, and the option to withdraw lump sum accumulated employee contributions was eliminated. The new normal retirement age is 65 for most employees and age 55 for members of the General Assembly and certain employees classified in hazardous duty positions.

Most members of the SERS, and all covered employees hired after June 30, 2001 and prior to January 1, 2011 (except State Police officers and certain members of the judiciary and legislators), are Class AA members, pursuant to Act 2001-9 (Act 9), signed into law on May 17, 2001. Among other things, Act 9 provides for general annual retirement benefits of 2.5 percent of the member's highest three-year average salary (final average salary) multiplied by years of service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding their year of retirement). The annual benefit is 75 percent of salary for 25 or more years of service and 50 percent of salary for 20-24 years of service. Judges are entitled to a benefit of 4 percent of final average salary for each of the first 10 years of service and 3 percent for subsequent years. District Justices are entitled to a benefit of 3 percent of final average salary for each year of service. Legislators taking office before December 1, 2010 are Class D-4, which translates into an annual benefit of 3 percent of the final average salary for each year of service. The general annual benefit for full retirement for Class A members is 2 percent of the member's highest three-year salary multiplied by years of service. Act 120 of 2010 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011 and December 1, 2010 for legislators newly elected in November 2010. The general annual benefit for Class A-3 members is 2 percent of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5 percent.

**Funding Policy:** Commonwealth law establishes the funding policy for all members' contribution rates. The active plan member contribution rate is 6.25 percent of covered payroll for employees in Class AA; for Class A members, the contribution rate is 5 percent. The general membership contribution rate under Act 120 for A-3 and A-4 members is 6.25 percent and 9.3 percent of salary, respectively. Higher contributions are required for certain members of the General Assembly, judges and district justices who elect higher contribution rates. The SERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll.

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Act 120 imposes rate increase collars on employer contributions that keep the employer contribution rate below the rates established in accordance with actuarial parameters suggested by the GASB standards. The collar for FY 13/14 is 4.5 percent and will remain at that rate until no longer needed. A variation of the entry-age normal actuarial cost method is used to determine the liabilities and costs related to all of the SERS benefits, including superannuation, withdrawal, death, and disability benefits, and to determine employer contribution rates. These rates are computed based upon actuarial valuations on the SERS' fiscal year-end December 31 and applied to the Commonwealth based on its fiscal year-end June 30.

During each of the three years ended December 31, the annual required employer contribution and the related percentage of that amount actually contributed are as follows:

<u>Year ended December 31</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2013	\$ 1,314,925	60.2%
2012	\$ 1,044,632	53.9%
2011	\$ 913,778	42.8%

**Summary of Significant Accounting Policies:** The SERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employee salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Investment Valuation:** Investments are reported at fair value, which is the amount that the SERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. The investments in short-term funds, including those managed by the State Treasurer, are reported at cost plus allocated interest, which approximates fair value. The securities lending collateral pool, which is a fund operated by the securities lending agent, also is reported at cost plus accrued interest, which approximates fair value. U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, and some hedge funds are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. Foreign exchange, futures and swap contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. Real estate investments, which are subject to annual independent audits, are primarily valued based on independent appraisals. Properties that have not been appraised are valued using the present value of the projected future net income stream. Alternative investments, which are subject to an annual independent audit, include interests in limited partnerships invested in venture capital, private equities, and other investments, are valued based on estimated fair value established by valuation committees.

The collective trust funds (CTF) consist primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share net asset value of the respective fund. The CTF is subject to an annual independent audit.

Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are reported as investment purchases payable. Investment expenses consist of investment managers' fees and those expenses directly related to the SERS' investment operations.

Investments in venture capital, private equity and real estate are generally illiquid. Because of the inherent uncertainty in valuing privately held securities, the fair value may differ from the values that would have been used had a ready market for such securities existed, and the difference can be material. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)****Public School Employees' Retirement System**

**Plan Description:** The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employee members. At June 30, 2014 there were 789 participating employers, generally school districts. In relation to the PSERS, the Commonwealth is a non-employer contributor organization. The PSERS implemented GASB 67, Financial Reporting for Pension Plans for the fiscal year ended June 30, 2014.

**Benefits:** The PSERS provides retirement, disability retirement, death, and health care benefits. Under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.

Benefits are generally equal to 2 percent or 2.5 percent, depending upon membership class, of the member's final average salary (as defined in the Pennsylvania Public School Employees' Retirement Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

**Funding Policy:** The Public School Employees' Retirement Code provides that the PSERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the employer contributions paid to the System. All school entity employers are reimbursed by the Commonwealth at least 50% of the total employer contributions based on the total contribution rate. The Commonwealth remits employer contributions for employers other than school entities directly to PSERS.

The contribution rates for active plan memberships started prior to July 1, 2011 are as follows:

- Membership Class T-C and T-D hired before July 22, 1983 are 5.25 and 6.50 percent of covered payroll, respectively;
- Membership Class T-C and T-D hired after July 21, 1983, the rates are 6.25 and 7.50 percent, respectively.

The contribution rates for active plan memberships started on or after July 1, 2011 are as follows:

- Membership Class T-E and T-F rates are 7.50 and 10.30 percent, respectively.

Act 120 suppressed the employer contribution rate by using rate caps through June 30, 2014 to keep the rate from rising too high, too fast for budgetary purposes. The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior years' rate. For the fiscal year ended June 30, 2014 and thereafter, the rate can increase no more than 4.5 percent plus the premium assistance contribution rate.

The rate cap remains at 4.5 percent until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time. Once the rate caps no longer apply, the employer normal cost becomes the contribution rate floor.

During each of the three fiscal years ended June 30, the annual required employer contribution and the related percentage of that amount actually contributed are as follows:

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

<u>Fiscal year Ended June 30</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2014	\$ 3,410,373	58%
2013	\$ 3,110,429	46%
2012	\$ 2,629,244	38%

**Summary of Significant Accounting Policies:** The financial statements of PSERS are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Member and employer contributions are recognized in the period for which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Investment Valuation:** PSERS's investments are reported at fair value. Fair value is the amount that PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national securities exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national securities exchanges or securities pricing services. Securities which are not traded on a national securities exchange are valued by the respective fund manager or other third parties based on similar sales.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and, for properties not appraised, the present value of the projected future net income stream is used. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2014 \$132,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 9, 2015. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 75 basis points and is collateralized by certain fixed income investments of PSERS.

For alternative investments which include private equity, private debt, venture capital and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily based on published market prices and quotations from national securities exchanges or securities pricing services. The changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The funds generally do not pay interest or dividends to shareholders and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which regulatory agencies such as the Securities and Exchange Commission have regulatory oversight. Investments that are not subject to this oversight are subject to annual independent audits.

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)****Other Postemployment Benefits**

The Commonwealth established and sponsors two primary plans which provide postemployment benefits other than pensions (OPEB). These two plans are the Retired Employees Health Program (REHP) and the Retired Pennsylvania State Police Program (RPSPP). These two plans are administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF), which acts as a third-party administrator for the REHP and RPSPP under an administrative agreement with the Commonwealth. Both plans are single employer defined benefit OPEB plans. Nearly all Commonwealth agencies and several discretely presented component units participate in the REHP. The Pennsylvania Judiciary (Judiciary), Pennsylvania House of Representatives (House), and the Pennsylvania Senate (Senate) have established and sponsor their own OPEB plans. All OPEB plans and benefit provisions therein have been established under pertinent statutory authority. The REHP is provided, in part, as a part of collective bargaining agreements with most Commonwealth labor unions. The RPSPP is provided as a part of collective bargaining agreements with certain Commonwealth labor unions.

Benefit provisions included in the REHP, RPSPP, Judiciary, House, and Senate plans are established and may be amended by the establishing sponsor of the given OPEB plan. Each OPEB plan provides postemployment healthcare benefits and, to varying degrees, some of the non-REHP OPEB plans provide specific dental, hearing, vision, life insurance, long-term disability and long-term care benefits. Among the different OPEB plans, the REHP is the largest of such plans and provides only postemployment healthcare benefits. None of the OPEB plans issues a stand-alone financial report or is included in the financial statements of a public employee retirement system.

REHP contribution requirements are established by the Office of Administration and the Governor's Budget Office. All employing agencies and certain plan members must contribute specified amounts to the REHP. During the fiscal year ended June 30, 2014, almost all employing agencies contributed \$305 (whole dollars) for each current, active REHP eligible employee per biweekly pay period to fund the REHP. Several employing agencies contribute under comparable payment arrangements. For employees who retired after June 30, 2005 and before July 1, 2007 the retiree contribution is set at 1 percent of the employee's final annual salary. Most Commonwealth employees who retired on or after July 1, 2007 but before July 1, 2011 are currently required to pay retiree contributions of 3 percent of either their final annual gross salary or final average salary, whichever is less. Most employees who retire on or after July 1, 2011 are currently required to pay retiree contributions of 3 percent of their final average salary. Upon enrollment in Medicare, Commonwealth employees who are currently paying 3 percent will pay retiree contributions of 1.5 percent of either their final annual gross salary or final average salary, whichever applies. In February 2008 a three tiered prescription REHP member copayment was introduced and in May 2008 a Medicare Private Fee-For-Service plan for REHP was started. In January 2011, the majority of REHP Medicare-eligible members were enrolled in Medicare HMO or Medicare PPO medical plans.

RPSPP contribution requirements are established within collective bargaining agreements. During the fiscal year ended June 30, 2014 employing agencies contributed \$810 (whole dollars) for each current RPSPP eligible active employee per biweekly pay period to fund the RPSPP. RPSPP plan members are not required to make contributions.

The REHP and RPSPP funding rates needed to fund current year annuitant health care costs are established as part of the Commonwealth's annual budgeting process. During the fiscal year ended June 30, 2014, the Commonwealth funded \$690,490 and \$76,850 of annuitant health care claims and administrative costs for the REHP and RPSPP, respectively. Any additional contributions to advance fund annuitant health care liabilities are determined annually by the Commonwealth. During the fiscal year ended June 30, 2008, advance funding of \$60,000 for the REHP and \$50,800 for the RPSPP was contributed to the Other Postemployment Benefits Investment Pool, a Pension (and Other Employee Benefit) Trust Fund. Since then, neither the REHP nor the RPSPP Annual Required Contribution has been fully funded. Policy on advance funding is evaluated annually.

## NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

## Annual OPEB cost and actual contributions (amounts in millions):

As of and for the fiscal year ended June 30, 2014	REHP	RPSPP	Judiciary	House	Senate	Total
Annual required contributions.....	\$ 893.07	\$ 215.56	\$ 39.96	\$ 43.20	\$ 13.76	\$ 1,205.55
Interest on net OPEB obligation.....	67.94	24.88	5.11	7.47	3.91	109.31
Adjustment to annual required contribution..	(62.68)	(22.95)	(4.52)	(10.19)	(1.35)	(101.69)
Total Annual OPEB cost (expense).....	898.33	217.49	40.55	40.48	16.32	1,213.17
Qualifying contributions.....	(690.49)	(76.85)	(21.95)	(14.18)	(6.10)	(809.57)
Increase in net OPEB obligation.....	207.84	140.64	18.60	26.30	10.22	403.60
Net OPEB obligation, July 1, 2013.....	1,430.27	523.76	102.14	165.97	86.98	2,309.12
Net OPEB obligation, June 30, 2014.....	<u>\$ 1,638.11</u>	<u>\$ 664.40</u>	<u>\$ 120.74</u>	<u>\$ 192.27</u>	<u>\$ 97.20</u>	<u>\$ 2,712.72</u>

The net OPEB obligation attributable to REHP at June 30, 2014 is allocated among all REHP-participating employers. Several REHP-participating employer organizations are not reported as part of the Commonwealth's financial reporting entity or are reported as discretely presented component units. Percentage of annual OPEB cost contributed during the fiscal years ended June 30, 2014, 2013 and 2012 is as follows (amounts in millions):

	REHP	RPSPP	Judiciary	House	Senate	Total
<b>For the fiscal year ended June 30, 2014</b>						
Annual OPEB cost.....	\$ 898.33	\$ 217.49	\$ 40.55	\$ 40.48	\$ 16.32	\$ 1,213.17
Percentage of annual OPEB cost contributed.....	77%	35%	54%	35%	37%	67%
Net OPEB obligation.....	\$1,638.11	\$ 664.40	\$ 120.74	\$ 192.27	\$ 97.20	\$ 2,712.72
<b>For the fiscal year ended June 30, 2013</b>						
Annual OPEB cost.....	\$ 869.14	\$ 208.55	\$ 35.99	\$ 40.93	\$ 18.34	\$ 1,172.95
Percentage of annual OPEB cost contributed.....	71%	33%	57%	32%	39%	62%
Net OPEB obligation.....	\$1,430.27	\$ 523.76	\$ 102.14	\$ 165.97	\$ 86.98	\$ 2,309.12
<b>For the fiscal year ended June 30, 2012</b>						
Annual OPEB cost.....	\$ 870.20	\$ 175.24	\$ 34.48	\$ 39.50	\$ 17.46	\$ 1,136.88
Percentage of annual OPEB cost contributed.....	72%	39%	62%	33%	37%	65%
Net OPEB obligation.....	\$1,174.79	\$ 383.59	\$ 86.51	\$ 138.23	\$ 75.75	\$ 1,858.87

Funded status of the OPEB plans as of the most recent valuation is as follows (amounts in millions):

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (assets as % of AAL)	Estimated Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
REHP.....	July 1, 2013	\$ 82.06	\$ 13,234.04	\$ 13,151.98	0.62%	\$ 4,264.00	308%
RPSPP.....	July 1, 2013	69.48	3,188.19	3,118.71	2.18%	391.00	798%
Judiciary.....	July 1, 2014	-	502.60	502.60	-	200.60	251%
House.....	July 1, 2012	-	386.30	386.30	-	95.32	405%
Senate.....	July 1, 2013	-	220.87	220.87	-	49.75	444%
Total.....		<u>\$ 151.54</u>	<u>\$ 17,532.00</u>	<u>\$ 17,380.46</u>		<u>\$ 5,000.67</u>	348%

The REHP and RPSPP data in the preceding charts was obtained from an actuarial valuation, prepared by an independent actuary, as of July 1, 2013 using census data collected as of December 2012 and health care claims costs for calendar year 2012. The valuation measurements result, in part, from estimates of the value of reported amounts and assumptions about the probability of events far into the future and such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of cost sharing between the Commonwealth and its employing agencies and the plan



**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

members through June 30, 2013. Inherently, the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial measurements were made using a long-term perspective and, consistent with that perspective, the different actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in both actuarial accrued liabilities and the actuarial value of assets.

**Specific actuarial assumptions for the REHP and RPSPP:**

Actuarial cost method:	Projected Unit Credit
Method used to determine actuarial value of assets:	Fair Value
Investment returns:	4.75 percent
Inflation rate assumption:	2.75 percent

Healthcare cost trend increases:	<u>Initial Rate</u>		<u>Ultimate Rate</u>	
	REHP	RPSPP	REHP	RPSPP
<b><u>Medicare-Retiree</u></b>				
Medical Benefits (REHP)	5.7	--	3.8	--
<b><u>Non-Medicare Retiree</u></b>				
Medical Benefits (REHP)	6.2	--	3.8	--
Medical Benefits (RPSPP)	--	6.2	--	3.8
Pharmacy Benefits	6.2	6.2	3.8	3.8
Dental Benefits (RPSPP)	--	6.2	--	3.8
Part B Premiums	--	6.0	--	4.0

Amortization method:	Level percent of payroll
Amortization period:	30 year open amortization (fresh start each year)

Schedules of Funding Progress and Employer Contributions for primary government OPEB plans are included in Required Supplementary Information, immediately following the Notes to the Financial Statements, and include three fiscal years of information about whether the actuarial value of plan assets is increasing or decreasing in relation to the actuarial accrued liability for benefits.

**NOTE J - SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS**

**Short-Term Debt**

On August 30, 2013, the Commonwealth initiated a temporary interfund advance of \$250,000 from the PA Treasury Department's Short Term Investment Pool (STIP) to the Capital Facilities Fund. This advance was made to remedy cash flow imbalances and to allow work to continue on state-supported construction and improvement projects. The advance was repaid on November 8, 2013 with the issuance of general obligation bonds. Disclosures related to general obligation bonds payable are provided in Note K to the basic financial statements.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Advance	\$ -	\$ 250,000	\$ 250,000	\$ -

On December 12, 2013, the Commonwealth entered into an investment agreement with the PA Treasury to establish a revolving line of credit for the exclusive, limited purpose of making funds available for deposit only into the **General Fund** to be used to remedy cash flow imbalances. The source of the funds was the STIP. The STIP advanced \$600,000 on December 13, 2013, \$500,000 on January 14, 2014, and \$400,000 on March 14, 2014 to the **General Fund**. All advances were repaid on March 21, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Advance	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -

**Other Financing Obligations**

Pursuant to applicable Commonwealth laws, the Underground Storage Tank Indemnification Fund (USTIF), an Agency Fund, advanced \$67,500 to the **General Fund**. There were no borrowings from, or repayments to, the USTIF during the fiscal year ended June 30, 2014, as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Principal	\$ 67,500	\$ -	\$ -	\$ 67,500

Based on several contractual agreements between the Commonwealth, the City of Philadelphia (City), and the Pennsylvania Convention Center Authority (PCCA), a discretely presented component unit, the Commonwealth is financially obligated for debt service principal and interest payments for certain bonds issued by a public financing authority in connection with the PCCA premises in Philadelphia, Pennsylvania. Total debt service requirements for the bonds at June 30, 2014 are as follows:

**NOTE J – SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)**

<u>Fiscal Year Ending June 30</u>	<u>Total Other Financing Obligations</u>
2015.....	\$ 24,136
2016.....	19,985
2017.....	20,004
2018.....	19,946
2019.....	18,899
2020-24.....	90,472
2025-29.....	80,157
2030-34.....	120,260
2035-39.....	<u>130,306</u>
Total principal and interest.....	524,166
Less: interest .....	<u>(276,046)</u>
<b>Total Principal .....</b>	<b><u>\$ 248,120</u></b>

Total bond principal and interest payments made during the fiscal year ended June 30, 2014 amounted to \$25,108 and were financed by \$15,000 from the City (in the form of an annual service fee), \$5,324 from the U.S. Treasury (in the form of a Build America Bonds interest subsidy for Series B of the bonds), and \$4,784 from the Gaming Fund of the Commonwealth (paid under the provisions of Act 53 of 2007).

Through June 30, 2039, the Commonwealth anticipates that the City will remit \$15,000 each fiscal year to the bond trustee, to be applied first to bond principal and interest payments due during each fiscal year amounting to a total of \$360,000; a total of \$101,703 of Build America Bonds Series B interest subsidy that will be paid to the bond trustee; the bond trustee will apply Debt Service Reserve fund income of \$22,554; and the Commonwealth will appropriate a maximum amount of \$39,909 to be financed by the Gaming Fund under the provisions of Act 53 of 2007 to finance total bond principal and interest payments of \$524,166 at June 30, 2014. Amounts to be financed by the Gaming Fund under the provisions of Act 53 of 2007 are established each fiscal year and will vary based on bond trustee investment income and other amounts due under the bond trust indenture and other contractual agreements.

## NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES

Long-term obligations of the Commonwealth's governmental activities at June 30, 2014 and changes therein during the fiscal year ended June 30, 2014 are as follows:

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities.....	2003-14	3.00-5.85%	2034	\$97,286,089	\$ 6,815,710	\$1,265,000	\$ 646,550	\$ 7,434,160
Disaster Relief.....	-	-	-	105,908	-	-	-	-
Land and Water Development.....	1992	6.25%	2012	300	-	-	-	-
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992	6.25%	2012	50,000	-	-	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	3,000	-	-	-	-
Water Facilities Loan.....	1992	6.25%	2012	11,500	-	-	-	-
Pennsylvania Economic Revitalization.....	1992	6.25%	2012	14,000	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	2005-13	3.00-5.85%	2033	51,600	560,550	-	29,790	530,760
Local Criminal Justice.....	2006-08	4.00-5.00%	2028	3,000	1,915	-	325	1,590
Water Supply and Wastewater Treatment.....	2005-14	3.00-5.85%	2034	8,725	157,570	30,000	20,350	167,220
Growing Greener.....	2005-13	3.00-5.85%	2033	56,000	440,710	-	48,235	392,475
Persian Gulf Conflict Veterans Compensation.....	2008	4.00-5.00%	2028	13,000	5,120	-	260	4,860
Refunding Bonds.....	2002-14	2.00-5.50%	2024	-	2,915,590	289,945	319,525	2,886,010
Total principal.....				97,634,122	10,897,165	1,584,945	1,065,035	11,417,075
Unamortized premium on bonds issued*...					1,136,261	203,087	81,494	1,257,854
Total general obligation bonds payable**..					<u>\$97,634,122</u>	<u>12,033,426</u>	<u>1,146,529</u>	<u>\$ 12,674,929</u>
Other General Long-Term Obligations Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....					3,181	715	1,361	2,535
Capital Lease Obligations.....					121,839	-	6,414	115,425
Self-Insurance—Note M ***.....					825,472	773,997	757,421	842,048
Compensated Absences ***.....					741,387	485,495	476,376	750,506
Pollution Remediation Obligations***.....					237,456	2,770	26,383	213,843
Other .....					1,352,838	378,122	269,024	1,461,936
Subtotal.....					<u>3,282,173</u>	<u>1,641,099</u>	<u>1,536,979</u>	<u>3,386,293</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>					<u><b>\$ 15,315,599</b></u>	<u><b>\$3,429,131</b></u>	<u><b>\$2,683,508</b></u>	<u><b>\$ 16,061,222</b></u>

\*Due to the implementation of GASB Statement 65, the beginning balance for the Unamortized premium on bonds issued included bond issuance costs, which now have been written off.

\*\*The beginning balance for total general obligation bonds payable has been adjusted due to the implementation of GASB Statement 65 to reflect the reclassification of deferred net refunded loss from a component of bonds payable to a deferred outflow.

\*\*\*The reported current liability portion of: Self-Insurance is \$149,821; Compensated Absences is \$132,845; Pollution Remediation Obligation is \$18,283 and Other liabilities is \$202,135.

Total principal "Additions" above, amounting to \$1,584,945, are equal to Bonds Issued of \$1,295,000 and refunding bonds issued of \$289,945 reported in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2014.

The total "Additions" of \$1,788,032 for General Obligation Bonds Payable at June 30, 2014 consists of total bond and refunding bond proceeds of \$1,450,262 and \$337,770, respectively, for Governmental Funds (including premium of \$203,088).

The total "Reductions" of \$1,146,529 for General Obligation Bonds Payable at June 30, 2014 consists of total principal repayments of \$1,065,035, plus \$81,494 of bond premium that was amortized and credited to bond interest expense in the Statement of Activities (unamortized premium in the Statement of Net Position at June 30, 2014 is \$1,257,854).

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES (continued)**

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. The **General Fund**, the **Motor License Fund** and the PA Gaming Economic Development and Tourism Fund transferred amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2014, these three funds transferred \$1,018,047, \$63,910 and \$47,074 respectively, to the Capital Debt Fund. The Capital Debt Fund reported \$1,185,341 (92 percent) of total Debt Service funds principal and interest expenditures of \$1,286,689. Typically, except for Catastrophic Loss Benefits Claims, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are mostly funded by the **General Fund** and/or the **Motor License Fund**. In specific, limited instances, a variety of individual funds will fund some obligations, such instances include capital assets being procured using long-term vendor or other financing.

Pollution remediation obligations generally involve groundwater, surface water and/or soil at or adjacent to former manufacturing/industrial locations. Also, affected landfills have either received specific contaminants and/or are the source of leachate, either on-site or affecting adjacent properties. Typical contaminants include petroleum, chlorinated and/or polycyclic aromatic hydrocarbons; also, priority pollutant and/or target analyte list metals or lead. Financial responsibility is often coordinated between the Commonwealth, the Federal Environmental Protection Agency and, from time to time, either private responsible or potentially responsible parties. Reported obligation amounts do not include instances, or portions of instances, where specific components of a potential remediation effort are not reasonably estimable as of June 30, 2014. The nature of the remediation activities in such instances is often site assessment, investigation or feasibility studies. Remediation efforts are typically funded through the Hazardous Sites Cleanup Fund or the **Motor License Fund**, both special revenue funds.

Included in "Other" for Other General Long-Term Obligations payable from workers' compensation insurance carrier assessments, **General Fund**, **Motor License Fund**, and/or other governmental fund tax revenues, investment income and/or escheated property are the following at June 30, 2014:

Workers' Compensation Security Trust claims.....	\$ 384,755
Catastrophic Loss Benefits claims.....	74,721
Public Utility Realty Tax Act (PURTA) liability.....	30,834
Litigation liability - Note N.....	80,400
State Insurance Fund claims.....	6,057
Foster Care litigation liability.....	56,160
Restricted receipts liability.....	1,514
Escheated property liability.....	827,495
<b>Total.....</b>	<b><u>\$ 1,461,936</u></b>

The Workers' Compensation Security Trust Fund provides for payment of valid claims under the Workers' Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The Catastrophic Loss Benefits Continuation Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The Public Utility Realty Tax Act (PURTA) provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a **General Fund** revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. Escheated property is held in perpetuity for the rightful owner. The liability represents the estimated property that will ultimately be claimed. This property may be claimed without the appropriation process. None of the "Other" amounts included in General Long-Term Obligations at June 30, 2014 are payable with currently expendable available financial resources.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$61,334,564 as of August 31, 2014, with net debt outstanding after credit for refunded debt of \$9,960,500.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES (continued)**

The following tables present annual principal and interest payments for long-term debt outstanding at June 30, 2014:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020-24</u>	<u>2025-29</u>
<b>GENERAL OBLIGATION BONDS:</b>							
Capital Facilities.....	\$ 743,805	\$ 703,827	\$ 668,533	\$ 656,484	\$ 609,700	\$ 3,178,209	\$ 3,174,024
Disaster Relief.....	-	-	-	-	-	-	-
Land and Water Development.....	-	-	-	-	-	-	-
Nursing Home Loan Development.....	-	-	-	-	-	-	-
Volunteer Companies Loan.....	-	-	-	-	-	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-	-
Water Facilities Loan.....	-	-	-	-	-	-	-
Pennsylvania Economic Revitalization.....	-	-	-	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	42,812	42,607	39,930	39,737	37,001	238,836	253,746
Local Criminal Justice.....	176	172	176	132	138	715	728
Water Supply and Wastewater Treatment.....	16,959	16,987	15,991	14,573	11,106	74,208	72,606
Growing Greener.....	41,371	41,254	38,652	32,144	30,768	179,940	170,312
Persian Gulf Conflict Veterans Compensation.....	503	499	505	500	525	2,018	2,304
Refunding Bonds.....	<u>428,438</u>	<u>427,227</u>	<u>417,421</u>	<u>408,926</u>	<u>437,222</u>	<u>1,289,652</u>	<u>48,129</u>
Total Principal and Interest.....	1,274,064	1,232,573	1,181,208	1,152,496	1,126,460	4,963,578	3,721,849
Less: Interest Payments.....	<u>(862,713)</u>	<u>(652,797)</u>	<u>(444,081)</u>	<u>(478,354)</u>	<u>(348,103)</u>	<u>(1,421,079)</u>	<u>(464,262)</u>
Total General Obligation Bonds.....	411,351	579,776	737,127	674,142	778,357	3,542,499	3,257,587
Other General Long-Term Obligations.....	<u>503,084</u>	<u>280,189</u>	<u>235,299</u>	<u>225,421</u>	<u>226,782</u>	<u>970,416</u>	<u>472,215</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS</b>	<u>\$ 914,435</u>	<u>\$ 859,965</u>	<u>\$ 972,426</u>	<u>\$ 899,563</u>	<u>\$ 1,005,139</u>	<u>\$ 4,512,915</u>	<u>\$ 3,729,802</u>

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES (continued)**

	<u><b>2030-34</b></u>	<u><b>Total</b></u>
<b>GENERAL OBLIGATION BONDS:</b>		
Capital Facilities.....	\$ 1,287,393	\$ 11,021,975
Disaster Relief.....	-	-
Land and Water Development.....	-	-
Nursing Home Loan Development.....	-	-
Volunteer Companies Loan.....	-	-
Vietnam Conflict Veterans Compensation.....	-	-
Water Facilities Loan.....	-	-
Pennsylvania Economic Revitalization.....	-	-
Pennsylvania Infrastructure Investment Authority.....	107,131	801,800
Local Criminal Justice.....	-	2,237
Water Supply and Wastewater Treatment.....	15,535	237,965
Growing Greener.....	29,534	563,975
Persian Gulf Conflict Veterans Compensation.....	-	6,854
Refunding Bonds.....	-	3,457,015
Total Principal and Interest.....	1,439,593	16,091,821
Less: Interest Payments.....	(3,357)	(4,674,746)
Total General Obligation Bonds.....	1,436,236	11,417,075
Other General Long-Term Obligations.....	472,887	3,386,293
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>	<u><b>\$ 1,909,123</b></u>	<u><b>\$ 14,803,368</b></u>

The Commonwealth routinely leases various facilities and equipment on an ongoing basis. Some of these lease agreements constitute in-substance purchases (capital leases) whereby the assets being leased are reported as capital assets and the related liabilities are reported as Capital Lease Obligations. In addition, the Commonwealth routinely acquires certain capital assets using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments due for capital leases and installment purchases, together with the present value of the net minimum lease payments as of June 30, 2014:

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES (continued)**

	<b>Capital Lease Obligations</b>	<b>Installment Purchase Obligations</b>
Fiscal Year Ending June 30		
2015.....	\$ 13,278	\$ 1,142
2016.....	13,434	894
2017.....	7,355	611
2018.....	7,400	83
2019.....	7,426	-
2020-24.....	39,955	-
2025-29.....	42,263	-
2030-34.....	<u>53,760</u>	<u>-</u>
Total minimum lease payments.....	184,871	2,730
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>(1,620)</u>	<u>-</u>
Net minimum lease payments and installment purchases.....	183,251	2,730
Less: amount representing interest.....	<u>(67,826)</u>	<u>(194)</u>
<b>Total Capital Lease and Installment Purchase Obligations.....</b>	<b><u>\$ 115,425</u></b>	<b><u>\$ 2,536</u></b>

At June 30, 2014, general capital assets included \$197,000 of buildings and \$1,595 of equipment that are being procured by capital leases. A total of \$21,500 in general capital assets are being procured by vendor-financed installment purchase arrangements.



**NOTE L - REFUNDED DEBT**

During the fiscal year ended June 30, 2014, the Commonwealth issued \$289,946 in general obligation bonds, First Refunding Series of 2014 with an average interest cost of 2.03 percent to advance refund \$312,930 of previously issued general obligation bonds with average interest rates of 4.8 percent. The net refunding bond proceeds of \$336,896 (including bond premium of \$47,825), after payment of underwriting fees and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by \$34,549 and to obtain an economic gain of \$28,417.

A deferred outflow of resources of \$23,966 for net refunding loss was reported in the Statement of Net Position. Bond issuance costs of \$4,821 were reported in the Statement of Revenues, Expenditures and Changes in Fund Balance, as Interest and Fiscal Charges.

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 2014, \$824,265 of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements were defeased through advance refunding.

## NOTE M – SELF-INSURANCE LIABILITIES

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee, and general torts. For property losses, the Commonwealth has a \$1,000 retention with excess commercial insurance coverage up to \$500,000 per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks. Accrued liabilities for statutory workers' compensation and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2014. No accrued liability has been reported for property losses under self-insurance.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2014. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

At June 30, 2014, none of the \$842,048 of accrued self-insurance liabilities for governmental activities were payable from current expendable available financial resources. The governmental activities liabilities are primarily owed by the **General Fund** (\$634,726) and the **Motor License Fund** (\$170,706). Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$2,914), the **State Workers' Insurance Fund** (\$2,091), and the State Stores Fund (\$32,345), all Enterprise Funds. All accrued self-insurance liabilities at June 30, 2014 are summarized as follows:

	Governmental Activities		Business-Type Activities		Fiduciary Fund Types	
	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>
Employee disability.....	\$ 99,325	\$ 561,098	\$ 5,971	\$ 33,735	\$ 54	\$ 304
Annuitant medical/hospital.	30,996	-	-	-	-	-
Automobile tort.....	3,250	6,183	-	-	-	-
Employee tort.....	5,750	50,218	-	-	-	-
General tort.....	500	11,554	-	-	-	-
Transportation.....	10,000	63,174	-	-	-	-
Totals.....	<u>\$ 149,821</u>	<u>\$ 692,227</u>	<u>\$ 5,971</u>	<u>\$ 33,735</u>	<u>\$ 54</u>	<u>\$ 304</u>

The following summary provides aggregated information on June 30, 2013 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2014 and reported self-insurance liabilities at June 30, 2014:

	June 30, 2013	Incurred Claims		Payments		June 30, 2014
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 673,340	\$ 91,590	\$ 47,530	\$ 12,022	\$ 99,951	\$ 700,487
Annuitant medical/hospital.	35,308	624,350	-	593,354	35,308	30,996
Automobile tort.....	8,969	3,347	570	1,389	2,064	9,433
Employee tort.....	55,179	12,358	(7,662)	1	3,906	55,968
General tort.....	13,031	931	(761)	72	1,075	12,054
Transportation.....	79,566	6,942	(5,198)	452	7,684	73,174
Totals.....	<u>\$ 865,393</u>	<u>\$ 739,518</u>	<u>\$ 34,479</u>	<u>\$ 607,290</u>	<u>\$ 149,988</u>	<u>\$ 882,112</u>

**NOTE M – SELF-INSURANCE LIABILITIES (continued)**

The following summary provides aggregated information on June 30, 2012 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2013; and reported self-insurance liabilities at June 30, 2013:

	June 30, 2012	Incurred Claims		Payments		June 30, 2013
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 673,639	\$ 84,082	\$ 16,480	\$ 12,479	\$ 88,382	\$ 673,340
Annuitant medical/hospital.	49,967	562,058	-	526,750	49,967	35,308
Automobile tort.....	11,000	2,789	(1,329)	984	2,507	8,969
Employee tort.....	43,189	11,489	5,389	163	4,725	55,179
General tort.....	13,072	683	151	35	840	13,031
Transportation.....	91,445	7,189	(11,575)	411	7,082	79,566
Totals.....	<u>\$ 882,312</u>	<u>\$ 668,290</u>	<u>\$ 9,116</u>	<u>\$ 540,822</u>	<u>\$ 153,503</u>	<u>\$ 865,393</u>

**NOTE N – COMMITMENTS AND CONTINGENCIES**

**Construction and Other Commitments:** At June 30, 2014 the Department of Transportation (DOT) had contractual commitments of approximately \$907,176 for various DOT highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved Federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$6,076,161 at June 30, 2014. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

**Encumbrances:** The Commonwealth utilizes encumbrances to account for outstanding commitments for open purchase orders and unfulfilled contracts. Amounts related to encumbrances based on outstanding purchase orders or other contracts are as follows:

<b>General Fund</b> .....	\$ 546,457
<b>Motor License Fund</b> .....	269,346
Capital Facilities Fund.....	1,774,733
Other nonmajor funds.....	301,464
<b>Total</b> .....	<b>\$ 2,892,000</b>

**Investment Commitments:** At June 30, 2014, the Treasury Commonwealth Investment Program had capital commitments of \$15,000 to fund alternative investments, of which \$11,469 was unfunded. At June 30, 2014, the **Tuition Payment Fund** had capital commitments of \$152,000 to fund alternative investments, of which \$72,233 was unfunded. At June 30, 2014, the Tobacco Settlement Fund had capital commitments of \$291,000 to fund private equity investments, of which \$45,294 was unfunded.

**Loan and Grant Commitments:** At June 30, 2014 primary government funds had approved \$79,291 in loans that had not been disbursed. Also at June 30, 2014 the **Commonwealth Financing Authority (CFA)**, a blended component unit, had approved loans and grants that had not been disbursed of \$258,439.

**Operating Lease Commitments:** As of June 30, 2014, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2014 were as follows:

Fiscal year ending June 30:	
2015.....	\$ 205,427
2016.....	152,744
2017.....	116,823
2018.....	89,832
2019.....	72,120
2020-24.....	254,930
2025-29.....	59,333
<b>Total Minimum Lease Payments</b> .....	<b>\$ 951,209</b>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2014 amounted to \$296,108.

**Child Support Payments:** At June 30, 2014, the Commonwealth was contingently liable for approximately \$17,102 in payments received by a contractor to be used for child support payments.

**Litigation:** The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings, and other alleged violations of Commonwealth and

**NOTE N – COMMITMENTS AND CONTINGENCIES (continued)**

Federal laws. The Commonwealth has reported accrued liabilities at June 30, 2014 with respect to torts as described in Note M for probable losses, and, separately, other General Long-Term Obligations with respect to litigation cases in the amount of \$80,400 for which the likelihood of an unfavorable outcome is probable. The Medical Care Availability and Reduction of Error Fund, an Agency fund, faces a probable loss of \$140,000 due to litigation.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible and may impair future revenue sources. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$100,000 to \$1,300,000 for the **General Fund**; \$1,000 to \$177,000 for the **Motor License Fund**, a Special Revenue Fund; and \$100 to \$1,000,000 of possible additional liabilities for the State Employees' Retirement System, a fiduciary fund. The range of potential liability for governmental activities is from \$100,000 to \$1,400,000. The liability for these cases has not been recorded as of June 30, 2014.

**Federal Grants:** The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$18,000 to \$300,000 at June 30, 2014. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

**Lottery Prizes:** The **State Lottery Fund (Lottery)**, an Enterprise Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes, which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2014, the amount of future payments owed to prizewinners was \$714,135. To satisfy its financial obligation to these prizewinners, the **Lottery** purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the **Lottery** is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the **Lottery** is not liable for the related annuity payments. At June 30, 2014, prizewinners had voluntarily assigned future payments of \$543,324.

**Pennsylvania Turnpike Commission (PTC):** Through fiscal year ended May 31, 2014, the PTC, a discretely presented component unit, issued \$936,296 of Special Revenue Bonds with an accreted value of \$970,503. Pursuant to Act 44 of 2007 the PG, through its **Motor License Fund**, provided security for these bonds in the event of a debt service shortfall. This guarantee extends until the retirement or defeasance of any Special Revenue Bonds or until October 13, 2057, whichever is sooner. To date, the PTC has made all required Special Revenue Bond debt service payments. No funds have been drawn or requested from the Commonwealth's **Motor License Fund** for Special Revenue Bond debt service during the current reporting period or any prior reporting periods. In the event that the Commonwealth's **Motor License Fund** would be required to make a Special Revenue Bond debt service payment, a provision of the Amended Lease and Funding Agreement, executed between the PTC and the **Motor License Fund**, requires the PTC to reimburse the **Motor License Fund** for any Special Revenue Bond debt service payments plus interest.

During the PTC's fiscal year ending May 31, 2015, total interest and principal due on the \$970,503 of Special Revenue Bonds outstanding at May 31, 2014 will amount to \$34,962 and \$1,065, respectively. Disclosures related to the PTC's Special Revenue Bonds payable as of May 31, 2014 are provided in Note S to the basic financial statements.

**NOTE N – COMMITMENTS AND CONTINGENCIES (continued)**

**Loan Guarantees:** The CFA, through various economic development programs, provided loan guarantees as of June 30, 2014 as follows:

First Industries loan guarantees	\$ 32,797
Tax Increment financing guarantees	28,115
Second stage loan guarantees	138
New Pennsylvania Venture Guarantees	<u>84,390</u>
Total loan guarantees	<u>\$ 145,440</u>

In the event a borrower is unable to make the required debt service payment on a guaranteed debt issuance, or a loss is incurred on the aggregate guaranteed investment portfolio, the CFA is required to make payment. The guarantees related to the New Pennsylvania Venture Guarantee Program extend throughout the life of the investment portfolio. The guarantees related to the Tax Increment Financing Guarantee, Second Stage Loan, and First Industries programs extend through July 1, 2032, September 1, 2016, and April 1, 2036, respectively, as of June 30, 2014. The CFA has recognized a liability for nonexchange financial guarantees at June 30, 2014 of \$8,182 as a result of the implementation of GASB Statement No. 70 and has made cumulative payments of \$5,861 for said amount. The CFA expects to recover a portion of these amounts in future periods; however, at this time the amount of any future recoveries is undeterminable.

**CFA Nonexchange Financial Guarantee**

Balance			Balance
<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>
\$ 9,223	\$ 257	\$ 1,298	\$ 8,182

**Primary Government Commitment for the Pennsylvania Convention Center Authority (PCCA):** According to a contractual arrangement (Operating Agreement) among the Commonwealth, the City of Philadelphia, and the PCCA, a discretely presented component unit, the Commonwealth is required to make payments to the PCCA to finance operating deficits. Such payments are to be primarily financed using the Gaming Fund. The Gaming Fund is used to finance a variety of programs and/or projects and the Gaming Fund itself may be unable to finance all of the PCCA operating deficits during the term of the Operating Agreement, which expires in 2039. In that event, primary government payments to the PCCA based on the Operating Agreement must be financed using funds separate from the Gaming Fund; such amounts are subject to annual appropriation by the General Assembly.

**Primary Government Commitment for the CFA:** According to a contractual arrangement (Service Agreement) among the Department of Community and Economic Development, the Office of the Budget and the CFA, the primary government is required to request sufficient annual appropriations from the General Assembly (to be funded by the General Fund and the Gaming Fund) to finance the Service Fee established in the Service Agreement. The Service Fee is the only significant source of funds the CFA has to pay its debt service obligations. The amount of such Service Fee is to be requested by October 1, each year, for the succeeding fiscal year budget effective July 1 of the following year. During the term of the Service Agreement, there can be no assurance that 1) the General Assembly will annually appropriate sufficient amounts to fund the annual Service Fee, or 2) funds will be available to finance such annual appropriations. During the fiscal year ended June 30, 2014 the primary government paid a Service Fee in the amount of \$147,885. Disclosures related to the CFA's \$1,656,210 of revenue bonds payable are provided in Note F to the basic financial statements.

**Primary Government Commitment for the Pittsburgh Penguins Arena:** A lease agreement between the Commonwealth and the Sports and Exhibition Authority of Pittsburgh and Allegheny County (SEA) created a 'subject to appropriation' obligation of the Commonwealth. In October 2007, the SEA issued \$313,300 of Commonwealth Lease Revenue Bonds (the Arena Bonds) to finance a multi-purpose arena to serve as home of the Pittsburgh Penguins (the Penguins), a hockey team in the National Hockey League. The Arena Bonds are not debt of the Commonwealth but are limited obligations of the SEA payable solely from the Special Revenues pledged. These Special Revenues include annually (1) \$4,100 from a lease with the Penguins, (2) not less than \$7,500 from the operator of a casino located in the City of Pittsburgh, and (3) \$7,500 from the

**NOTE N – COMMITMENTS AND CONTINGENCIES (continued)**

Commonwealth's Gaming and Economic Development and Tourism Fund. While the Special Revenues currently are projected to be adequate to pay all debt service on the Arena Bonds, to the extent such revenues are in any year inadequate to cover debt service, the Commonwealth is obligated under the Arena Lease to fund such deficiency, subject in all cases to appropriation by the General Assembly. The maximum annual amount payable by the Commonwealth under the Arena Lease is \$19,100.

In April 2010, the SEA issued \$17,360 in additional Commonwealth Lease Revenue Bonds (the Supplemental Arena Bonds). The Supplemental Arena Bonds do not constitute debt of the Commonwealth but are limited obligations of the SEA payable solely from the Special Revenues pledged therefor. The Commonwealth is obligated under the Arena Lease to fund any deficiency in Special Revenues necessary to pay debt service; subject in all cases to appropriation by the General Assembly. For fiscal year ended June 30, 2014 the actual amount appropriated to support the SEA debt service was \$545.

**NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES**

The Pennsylvania Medical Care Availability and Reduction of Error Fund (Fund), an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims to claimants which exceed basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund collects statutory healthcare provider surcharges, as a percentage of insurance premiums for basic liability coverage; in turn, the Fund pays claimants on behalf of healthcare providers. The Fund has assets of \$259,173 at June 30, 2014. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$1,220,000 at June 30, 2014. The claims will be funded exclusively through statutory surcharge assessments in future years as claims are settled and paid.

The Underground Storage Tank Indemnification Fund (USTIF), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The estimated actuarial liability for existing and potential future claims total \$405,957 and \$1,291,606 respectively, at June 30, 2014. There are statutory limits on the extent of the USTIF's liability to participating owners and operators; the USTIF is not obligated beyond assets held at June 30, 2014. The USTIF has assets of \$282,155 at June 30, 2014. Owners and operators will be assessed for any claims exceeding assets and no financial liability is reported for those claims.



**NOTE P - DEFERRED COMPENSATION PLAN**

The Commonwealth sponsors a deferred compensation plan (the Deferred Compensation Program) for its employees, which is a defined contribution benefit plan, created in accordance with Internal Revenue Code Section 457. The plan, which is administered by the State Employees' Retirement System, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency. The Commonwealth makes no contributions to the plan; contributions are limited to voluntary, participating employee salary deferrals, and/or employee transfers from other plans. Contributions for the calendar year 2013 were \$127,008.

**NOTE Q - JOINT VENTURE**

The Commonwealth and various labor unions representing Commonwealth collective bargaining employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF was established in 1988 through an Agreement and Declaration of Trust (Agreement). The PEBTF establishes and provides healthcare benefits for active Commonwealth employees and is the Commonwealth's third party administrator for paying retiree healthcare benefits for the Commonwealth Retired Employee Health Program and the Retired Pennsylvania State Police Program. The Commonwealth has, in its collective bargaining agreements with unions participating in the Agreement, obligated itself to provide certain contributions on behalf of bargaining unit employees. The Commonwealth also remits contractually established contributions on behalf of active non-union employees and other active employees covered by contracts between the Commonwealth and other unions. Nearly all active employees contribute established percentages of their salaries and wages received, constituting an 'employee share,' to finance active employee benefits. During the fiscal year ended June 30, 2014, total employer contributions for active employees amounted to approximately \$883,117; active employee contributions amounted to approximately \$93,963. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2014, for the active employees benefit program, the PEBTF reported total assets of \$407,126, total liabilities of \$8,847, total benefit obligations of \$104,238, and an excess of net assets over benefit obligations of \$294,041. During the fiscal year ended June 30, 2014, the PEBTF reported an increase in net assets over benefit obligations of \$12,711 for the active employees benefit program.

Due to timing differences in the implementation and payment of the new Employer Contribution effective July 1, 2011 the PEBTF recorded \$512 in contribution overpayments for the fiscal year ended June 30, 2014. It is expected that these overpayments will be offset by reductions in contribution payments as the collective bargaining agreements are adopted.

Audited financial statements for the active employee healthcare plans are available, by request, from:

Pennsylvania Employees Benefit Trust Fund  
150 South 43rd Street  
Harrisburg, Pennsylvania 17111-5700

**NOTE R – SUBSEQUENT EVENTS****Short term debt**

On September 8, 2014 the Commonwealth initiated a Short Term Investment Agreement (Investment Agreement) between the Treasury (Treasury) Department's Short Term Investment Pool (STIP) and the Office of the Budget for \$1,500,000. The Investment Agreement is structured as a revolving line of credit, which imposes a market based rate of return, for the exclusive purpose of providing cash for expenses payable from the **General Fund**. The Investment Agreement will provide the benefit, consistent with the public interest, of an alternate means of financing short term revenue shortfalls and avoids unnecessary costs and fees otherwise associated with traditional short term bond financing. On September 15, 2014 the Treasury advanced \$700,000 and on November 14, 2014, \$750,000 was advanced to the **General Fund**. The Investment Agreement will expire on June 30, 2015.

A temporary interfund advance of \$250,000 from the PA Treasury Department's STIP to the Capital Facilities Fund was completed on October 6, 2014. The advance was made to remedy cash flow imbalances and to allow work to continue on state-supported construction and improvement projects.

**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS**

Discretely Presented Component Units (DPCUs) as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, paragraph 20, and amended by GASB 61, paragraph 4b, are legally separate organizations for which the elected officials of the primary government (PG) are financially accountable. In addition, DPCUs can be other organizations of which the nature and significance of their relationship with the PG is such that exclusion of these organizations from the PG's financial statements would be misleading. DPCUs are established for the benefit of the Commonwealth's citizenry for a variety of purposes such as economic development, financing and public transportation. The following DPCU disclosures include only information that is deemed essential to the fair presentation of the Commonwealth's financial statements.

**Restatements**

The Pennsylvania Turnpike Commission (PTC), the Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Infrastructure Investment Authority (PENNVEST) and the State System of Higher Education (SSHE) adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the fiscal year ended June 30, 2014 (May 31, 2014 for the PTC). Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Some of these items previously reported as assets and liabilities were deferred gains on debt refundings, debt issuance costs, loan origination fees and costs, and commitment fees. Additionally, the SSHE added new component units and the PHFA reported corrections of prior period errors related to mortgage loan receivables, unrealized investment gains, interest rate swaps, note receivables and accrued interest. The following tables reflect the aggregate restatement impact on the beginning net position:

**Statement of Net Position**

	PTC				
	(June 1, 2013)	PHFA	PHEAA	PENNVEST	SSHE
Net position, as previously reported, at June 30, 2013....	\$ (2,617,625)	\$ 851,003	\$ 951,634	\$ 3,189,722	\$ 1,088,784
Implementation of GASB 65.....	(70,783)	(58,347)	(58,430)	(17,387)	(6,149)
Other changes.....	-	(80,195)	-	-	6,488
<b>Net position, as restated, at July 1, 2013.....</b>	<b>\$ (2,688,408)</b>	<b>\$ 712,461</b>	<b>\$ 893,204</b>	<b>\$ 3,172,335</b>	<b>\$ 1,089,123</b>

Please refer to the individual component unit separately audited and issued financial statements for additional restatement detail.

**Deposits, Investments and Financial Instruments with Off-Balance Sheet Risk**

DPCU organizations typically control receipt and disbursement of their own deposits, often through a trustee. Enabling legislation provides varying authority for investments; several DPCU organizations participate in the Commonwealth Investment Program (CIP).

**Deposit Risks**

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the DPCU would not be able to recover the value of the deposits.

All cash deposits held in various financial institutions for the PTC were either insured or collateralized by a pledge of direct obligations of the United States Government or the Commonwealth or otherwise in accordance with the laws of the Commonwealth governing trust funds of public bodies.

The PHFA held \$55,127 of cash deposits that were uninsured and collateralized with securities held by the pledging financial institution, its trust department or agent, but not in the PHFA's name.

**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The PHEAA held \$110,400 of deposits with financial institutions in excess of federal depository insurance limits that were uninsured and collateralized following an agreement to pledge assets on a pooled basis to secure public deposits in Pennsylvania. All collateral on deposits are held by the participating financial institution's trust department and is not held in the PHEAA's name.

The majority of PENNVEST deposits are held in the CIP. Deposits of the CIP must be held in insured depositories and must be fully collateralized.

The SSHE held \$45,354 of uninsured and uncollateralized deposits of which \$44,725 is covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended.

**Investment Risks**

**Risk Management Policies:** DPCU policies for certain risks are established by governing boards and bond indentures. Credit quality risk is addressed by establishing minimum nationally recognized statistical rating organization (NRSRO) ratings for allowable investment purchases. Concentration of credit risk is also avoided by limiting the concentration of investments in any one issuer. Some organizations have policies in place that prohibit a certain percent of the overall portfolio, whereas others determine concentration limits based on security type. Custodial credit risk is typically avoided through registration.

The PTC investment policies established by its bond indentures and the PTC management define guidelines and operational factors governing the investment of financial assets. Management's policy generally has the same restrictions regarding permitted investments as the indentures. Allowable investments include obligations of, or obligations guaranteed by, the United States of America, its agencies, and its instrumentalities; certificates of deposit issued by institutions insured by the FDIC or fully collateralized with United States Government obligations; investment agreements with certain financial institutions; commercial paper and asset-backed securities rated in the highest category by applicable rating agencies; money market funds and auction rate certificates rated in one of the two highest categories by applicable rating agencies; corporate bonds and medium term notes with a minimum rating of AA-; investments in long-term debt obligations of any state or political subdivision but only to the extent that the applicable rating agency has assigned a rating to such obligations, which at the time of purchase is not lower than the highest underlying rating assigned to any series of PTC bonds then outstanding; and repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York collateralized with obligations of, or guaranteed by, the United States of America. All investment ratings shall be based on security ratings at the time of purchase. The portfolio's average credit quality should be rated Aa3/AA- or better by Moody's/S&P.

Commonwealth statutes and contractual provisions contained in the bond trust indentures govern the investment policies of the PHFA. The Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 and bond indentures provide the authority to invest all PHFA funds. In compliance with the Act and bond indentures, it is the policy of the PHFA to invest in securities that provide suitable returns, preserve principal, meet liquidity needs and to further the purposes of the PHFA. The PHFA mitigates its credit risk by limiting investments to those permitted in its deposit and investment policies, diversifying the investment portfolio and prequalifying firms with which PHFA administers its investment activities.

The PHEAA Board of Directors authorizes the investment guidelines and PHEAA management governs the investments by using the "prudent person" rule. Generally, the PHEAA's investments are limited to U.S. Government securities, U.S. Government agency securities, federal instrumentalities sponsored by U.S. agencies, high-grade commercial paper, repurchase agreements collateralized by U.S. Treasury obligations, certificates of deposit, bankers acceptances eligible for purchase by the Federal Reserve System, and other investments approved by the Board of Directors.

**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The trust indenture and the Commonwealth Fiscal Code, as amended, authorizes PENNVEST to invest in obligations of the U.S. government and government-sponsored agencies and instrumentalities; certificates of deposits, fully insured or collateralized; certain commercial paper and repurchase agreements, highly rated bank promissory notes or investment of funds or trusts; and “prudent man” investments as determined by PENNVEST’s depository.

The SSHE investment policy is established by Board Policy and authorizes SSHE to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker’s acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations, asset-backed securities, and internal loan funds.

**Investments by Type**

The investment types and related amounts for certain DPCUs at June 30, 2014 (May 31, 2014 for the PTC) are as follows:

<b>Investment Type</b>	<b>PTC</b>	<b>PHFA</b>	<b>PHEAA</b>	<b>PENNVEST</b>	<b>SSHE</b>
Asset-backed securities.....	\$ -	\$ -	\$ -	\$ -	\$ 182,177
Bond mutual funds.....	-	-	-	-	5,936
Commercial paper.....	-	-	61,544	-	181,411
Common stock.....	-	-	-	-	2,456
Corporate obligations.....	320,486	-	-	-	266,797
Debt securities.....	-	-	-	-	80
Derivatives.....	57,652	-	-	-	-
Equity/balanced mutual funds.....	-	-	-	-	36,013
GNMA mortgages.....	8,057	-	-	-	-
Money market mutual funds.....	-	-	366,261	-	-
Mortgage backed securities.....	-	179,130	-	-	214,795
Municipal bonds.....	280,105	-	-	-	-
Repurchase agreement.....	-	-	-	-	13,749
Securities lending collateral.....	-	-	-	22,904	-
Short-term funds.....	-	-	147	-	-
Commonwealth Investment Program.....	-	-	508,945	1,024,374	-
U.S. Government and agency obligations.....	188,657	52,132	-	-	411,138
U.S. Treasury obligations.....	87,580	10,254	-	-	-
<b>Total investments.....</b>	<b>942,537</b>	<b>241,516</b>	<b>936,897</b>	<b>1,047,278</b>	<b>1,314,552</b>
Certificates of deposit.....	-	-	-	-	23
<b>Total investments and certificates of deposits...</b>	<b>\$ 942,537</b>	<b>\$ 241,516</b>	<b>\$ 936,897</b>	<b>\$ 1,047,278</b>	<b>\$ 1,314,575</b>

Note: Total investments by type does not include \$573,900 of investments reported by component units of the SSHE.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the organizations’ investment in a single issuer.

The PTC’s investment policy defines permitted investments along with the following concentration limitations. Investments in any single Federal agency are limited to 35 percent of the portfolio. Investments in certificates of deposit and investment agreements are limited to 30 percent of the portfolio and combined exposure to commercial paper, corporate bonds, and asset-backed securities, in aggregate, is limited to 35 percent of the total

**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

portfolio. Investments in any single issuer, excluding U.S. Treasury and Federal Agencies, are limited to 5 percent of the portfolio.

The PHFA policy indicates that the proportion of investments in government securities shall not exceed 70 percent of the portfolio and the proration of investments in certificates of deposit shall not exceed 30 percent of the portfolio. Departure from the policy requires written approval from the Executive Director, as permitted by PHFA Investment Policy and Guidelines. Concentration limits are not established in the bond indentures and governing agreements for trust investments.

The PHEAA investment policy does not contain requirements that limit the amount that can be invested in any one issuer. As of June 30, 2014, the PHEAA did not have investments in any one issuer that represented 5 percent or more of their total investments.

The PENNVEST participates in the CIP managed by the Commonwealth. The Commonwealth places a 10 percent limit on the concentration of investments in any one fixed income issuer within the CIP. This limitation excludes government-sponsored enterprises, direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Commonwealth also places a 5 percent limit on the concentration of investments in one equity issuer within the CIP.

The SSHE investment policy contains the following limitations: US Government securities together with repurchase agreements must comprise at least 20 percent of market value of the fund. Commercial paper investments must not exceed 20 percent of the market value of the fund. Municipal bonds must carry a long-term debt rating of A or better and may not exceed 20 percent of the market value of the fund. Corporate bonds may not exceed 20 percent of the market value of the fund; 15 percent must carry a long-term debt rating of A or better while 5 percent may be rated Baa2 or better. Collateralized mortgage obligations must be rated Aaa and guaranteed by the U.S. Government and may not exceed 20 percent of the market value of the fund. Asset-backed securities must be Aaa rated and the total may not exceed 20 percent of the market value of the fund, with no more than 5 percent invested in any single issuer. Investment fund loans may not exceed 20 percent of the market value of the fund and the loan terms may not exceed 5 years.

The following concentration existed as of June 30, 2014:

<u>Issuer Name</u>	<u>PHFA</u>
Tennessee Valley Authority.....	\$ 51,809

**NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

**Credit Risk:** The following table discloses aggregate fair value, by Moody's or Standard and Poor's credit quality rating category, at June 30, 2014 (May 31, 2014 for the PTC):

<b>Moody's</b>	<b>PTC</b>	<b>PHFA</b>	<b>PHEAA</b>	<b>PENNVEST</b>	<b>SSHE</b>
Aaa.....	\$ -	\$ 17,980	\$ 95	\$ -	\$ 747,536
Aa.....	43,060	-	9	-	58,938
A.....	8,717	-	15	-	143,444
Baa.....	5,875	-	21	-	55,816
P1.....	-	-	-	-	250,173
<b>Moody's Investor Service subtotal.....</b>	<b>57,652</b>	<b>17,980</b>	<b>140</b>	<b>-</b>	<b>1,255,907</b>
<b>Standard and Poor's</b>					
AAA.....	317,389	-	366,261	-	-
AA.....	370,435	-	-	-	-
A.....	100,640	-	61,544	-	-
Below A.....	784	-	-	-	-
<b>Standard and Poor's subtotal.....</b>	<b>789,248</b>	<b>-</b>	<b>427,805</b>	<b>-</b>	<b>-</b>
<b>Rated Subtotal.....</b>	<b>846,900</b>	<b>17,980</b>	<b>427,945</b>	<b>-</b>	<b>1,255,907</b>
<b>Unrated</b>					
Bond mutual funds.....	-	-	7	-	5,936
Debt securities.....	-	-	-	-	80
Mortgage backed securities.....	-	161,150	-	-	-
Commonwealth Investment Program.....	-	-	508,945	1,024,374	-
U.S. Treasury obligations.....	87,580	10,254	-	-	-
U.S. Government agency obligations.....	-	52,132	-	-	411
Repurchase agreements.....	-	-	-	-	13,749
GNMA obligations.....	8,057	-	-	-	-
<b>Unrated subtotal.....</b>	<b>95,637</b>	<b>223,536</b>	<b>508,952</b>	<b>1,024,374</b>	<b>20,176</b>
<b>Total Fixed income investments.....</b>	<b>942,537</b>	<b>241,516</b>	<b>936,897</b>	<b>1,024,374</b>	<b>1,276,083</b>
<b>Variable income investments</b>					
Equity/balanced mutual funds.....	-	-	-	-	36,013
Common stock.....	-	-	-	-	2,456
<b>Variable income investments subtotal.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,469</b>
<b>Total investments.....</b>	<b>\$ 942,537</b>	<b>\$ 241,516</b>	<b>\$ 936,897</b>	<b>\$ 1,024,374</b>	<b>\$ 1,314,552</b>

Note: Total investments by type does not include \$573,900 reported by component units of the SSHE.

U.S. Government agency obligations include all securities issued by the U.S. Treasury, U.S. Government agencies, and U.S. Government Sponsored Enterprises. These include securities that are both explicitly and implicitly guaranteed by the full faith and credit of the U.S. Government. Many of these securities are not usually rated by a NRSRO and have an implied rating of Aaa/AAA.

**Interest Rate Risk:** Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. The following table discloses option-adjusted duration (in years) by investment type for the fixed income portfolio of the PTC at May 31, 2014 and the SSHE at June 30, 2014:



## NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Investment Type	PTC		SSHE		
	Amount	Option-Adjusted Duration	Amount	Option-Adjusted Duration	Securities with no Duration
Asset backed securities.....	\$ -	-	\$ 182,177	1.31	\$ -
Bond mutual funds.....	-	-	5,936	4.68	-
Certificates of deposit.....	-	-	-	-	23
Commercial paper.....	-	-	181,411	0.11	-
Corporate obligations.....	320,486	1.75	266,797	1.73	-
Debt securities.....	-	-	80	5.03	-
GMNA mortgages.....	8,057	2.77	-	-	-
Mortgage-backed securities.....	-	-	214,795	2.74	-
Municipal bonds.....	280,105	1.34	-	-	-
U.S. Government agency obligations.....	188,657	2.58	411,138	3.10	-
U.S. Treasury obligations.....	87,580	3.02	-	-	-
<b>Total.....</b>	<b>\$ 884,885</b>		<b>\$ 1,262,334</b>		<b>\$ 23</b>

The PHFA and PHEAA do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those organizations at June 30, 2014:

Investment Type	PHFA			
	Matures in less than 1 year	Matures in 1 to 10 years	Matures in more than 10 years	Total
Mortgage-backed securities.....	\$ -	\$ 29,960	\$ 149,170	\$ 179,130
U.S. Government agency obligations...	85	238	51,809	52,132
U.S. Treasury obligations.....	6,479	3,775	-	10,254
<b>Total.....</b>	<b>\$ 6,564</b>	<b>\$ 33,973</b>	<b>\$ 200,979</b>	<b>\$ 241,516</b>

Investment Type	PHEAA			
	Matures in less than 1 year	Matures in 1 to 10 years	Matures in more than 10 years	Total
Commercial paper.....	\$ 61,544	\$ -	\$ -	\$ 61,544
Money market mutual funds.....	366,261	-	-	366,261
Commonwealth Investment Program..	508,945	-	-	508,945
Short-term funds.....	-	147	-	147
<b>Total.....</b>	<b>\$ 936,750</b>	<b>\$ 147</b>	<b>\$ -</b>	<b>\$ 936,897</b>

**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)****Derivatives**

As of May 31, 2014, the PTC in its separately-issued financial statements reported noncurrent hedging derivative instrument liabilities of \$49,684 which were offset by reported deferred outflow of resources of \$49,684. Changes in the net fair value of the hedging derivative instruments during the fiscal year ended May 31, 2014 \$(62,495) were deferred.

As of June 30, 2014, the PHFA, in its separately-issued financial statements, reported a noncurrent hedging derivative instrument liability of \$51,515. Changes in the fair value of the hedging derivatives of \$31,535 were deferred.

Further information regarding the nature and notional value of the hedging and investment derivative instruments of the PTC (as of May 31, 2014) and the PHFA (as of June 30, 2014) are available within their separately audited and issued financial statements.

**Loans Receivable**

Loans receivable at June 30, 2014 consisted of the following:

	<b>PHFA</b>	<b>PHEAA</b>	<b>PENNVEST</b>
Mortgage loans.....	\$ 3,893,536	\$ -	\$ -
Student loans.....	-	7,212,781	-
Drinking water, storm water and sewer system loans.....	-	-	2,501,858
<b>Subtotal.....</b>	<b>3,893,536</b>	<b>7,212,781</b>	<b>2,501,858</b>
Less: allowance for uncollectible amounts.....	198,648	19,712	49,183
<b>Loans receivable, net.....</b>	<b>\$ 3,694,888</b>	<b>\$ 7,193,069</b>	<b>\$ 2,452,675</b>

## NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

## Capital Assets

A summary of capital assets by category at May 31, 2014 for PTC and June 30, 2014 for SSHE is as follows:

PTC	Balance May 31, 2013	Increases	Decreases	Balance May 31, 2014
<b>Non-depreciable capital assets:</b>				
Land and intangibles.....	\$ 271,310	\$ 18,717	\$ 127	\$ 289,900
Construction in progress.....	661,613	369,940	241,157	790,396
<b>Subtotal.....</b>	<b>932,923</b>	<b>388,657</b>	<b>241,284</b>	<b>1,080,296</b>
<b>Depreciable capital assets:</b>				
Buildings.....	893,705	14,004	2,474	905,235
Improvements other than buildings.....	112,632	4,838	3,461	114,009
Equipment.....	549,578	22,583	2,046	570,115
Infrastructure.....	7,172,878	231,541	59,083	7,345,336
<b>Subtotal.....</b>	<b>8,728,793</b>	<b>272,966</b>	<b>67,064</b>	<b>8,934,695</b>
<b>Accumulated depreciation:</b>				
Buildings.....	312,159	22,265	2,452	331,972
Improvements other than buildings.....	66,252	5,131	3,461	67,922
Equipment.....	392,113	30,163	1,729	420,547
Infrastructure.....	4,059,290	266,451	45,552	4,280,189
<b>Total accumulated depreciation.....</b>	<b>4,829,814</b>	<b>324,010</b>	<b>53,194</b>	<b>5,100,630</b>
<b>Total capital assets being depreciated, net....</b>	<b>3,898,979</b>	<b>(51,044)</b>	<b>13,870</b>	<b>3,834,065</b>
<b>Total capital assets.....</b>	<b>\$ 4,831,902</b>	<b>\$ 337,613</b>	<b>\$ 255,154</b>	<b>\$ 4,914,361</b>

SSHE	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
<b>Non-depreciable capital assets:</b>				
Land and intangibles.....	\$ 29,263	\$ 3,097	\$ -	\$ 32,360
Construction in progress.....	103,782	56,997	90,573	70,206
<b>Subtotal.....</b>	<b>133,045</b>	<b>60,094</b>	<b>90,573</b>	<b>102,566</b>
<b>Depreciable capital assets:</b>				
Buildings.....	1,953,267	86,533	-	2,039,800
Improvements other than buildings.....	242,462	22,036	-	264,498
Equipment.....	445,431	19,135	9,809	454,757
Library books.....	83,911	1,181	1,402	83,690
<b>Subtotal.....</b>	<b>2,725,071</b>	<b>128,885</b>	<b>11,211</b>	<b>2,842,745</b>
<b>Accumulated depreciation:</b>				
Buildings.....	703,610	79,062	5,417	777,255
Improvements other than buildings.....	112,279	9,721	416	121,584
Equipment.....	339,086	29,276	12,996	355,366
Library books.....	73,566	2,134	1,402	74,298
<b>Total accumulated depreciation.....</b>	<b>1,228,541</b>	<b>120,193</b>	<b>20,231</b>	<b>1,328,503</b>
<b>Total capital assets being depreciated, net....</b>	<b>1,496,530</b>	<b>8,692</b>	<b>(9,020)</b>	<b>1,514,242</b>
<b>Total capital assets.....</b>	<b>\$ 1,629,575</b>	<b>\$ 68,786</b>	<b>\$ 81,553</b>	<b>\$ 1,616,808</b>

Note: Capital assets do not include \$1,057,220 (as restated) and \$1,178,479 reported by the component units of the SSHE as of June 30, 2013 and 2014, respectively.

**NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

**Student loan auction rate security bonds payable, notes payable and other financing obligations**

In December 2010, the PENNVEST issued the first series of short term obligations to finance the issuance of loans to program participants. In October 2011 the first amendment was issued. These obligations were in the form of bonds, and bear interest, which is due upon maturity. During the fiscal year ended June 30, 2014, the PENNVEST issued twenty-two such obligations in the aggregate principal amount of \$205,800 and repaid eighteen of these in the aggregate principal amount of \$164,800. Interest rates on these bonds ranged from .05 percent to .11 percent with no maturity being greater than 120 days. As of June 30, 2014, \$51,000 of these obligations remained outstanding. PENNVEST used a letter of credit to finance the \$164,800 repayment and repaid all balances owed for the letter of credit during the fiscal year ended June 30, 2014. A schedule of changes in the short-term obligations and the letter of credit follows:

	Balance			Balance
	July 1, 2013	Additions	Reductions	June 30, 2014
Notes Payable.....	\$ 10,000	205,800	164,800	\$ 51,000
Letter of Credit.....	\$ -	164,800	164,800	\$ -

The PHEAA has reported \$1,681,200 of auction rate security bonds payable, \$5,384,497 of notes payable (consisting of student loan financings of \$200,000, student loan financing warehouse facility of \$244,140 and student loan floating rate notes of \$4,940,357), and \$43,432 of other obligations (consisting of capital acquisition refunding bonds of \$37,152 and term financings of \$6,280) at June 30, 2014 as follows:

## NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)

	Balance June 30, 2013 Restated per GASB 65	Additions	Reductions	Balance June 30, 2014
<b>Bonds payable:</b>				
Student loan auction rate security bonds, due 2037-2047, at weighted-average rates of 1.19 percent as of June 30, 2014 and 1.07 percent as of June 30, 2013.....	\$ 2,516,700	\$ -	\$ 835,500	\$ 1,681,200
<b>Notes payable:</b>				
Student loan variable rate funding notes.....	\$ 319,006	\$ -	\$ 319,006	\$ -
Less: deferred loss on bond refundings of student loan variable floating rate notes.....	(926)	-	(926)	-
<b>Subtotal.....</b>	<b>318,080</b>	<b>-</b>	<b>318,080</b>	<b>-</b>
Student loan floating rate notes, due 2018-2046 at weighted average rates of 0.76 percent as of June 30, 2014 and 0.92 percent as of June 30, 2013.....	3,507,238	2,034,800	589,023	4,953,015
Less: discount on student loan floating rate notes.....	(1,802)	(11,848)	(992)	(12,658)
<b>Subtotal.....</b>	<b>3,505,436</b>	<b>2,022,952</b>	<b>588,031</b>	<b>4,940,357</b>
Student loan financings, due on demand at weighted-average rates of 0.90 percent as of June 30, 2014 and 0.94 percent as of June 30, 2013 .....	161,300	38,700	-	200,000
Student loan financing warehouse facilities, due 2015, at weighted average rates of 1.13 percent as of June 30, 2014 and 0.21 percent as of June 30, 2013.....	966,769	852,566	1,575,195	244,140
Plus: deferred gain on bond refunding of student loan financing warehouse facilities.....	-	9,108	9,108	-
<b>Subtotal.....</b>	<b>966,769</b>	<b>861,674</b>	<b>1,584,303</b>	<b>244,140</b>
<b>Total notes payable.....</b>	<b>\$ 4,951,585</b>	<b>\$ 2,923,326</b>	<b>\$ 2,490,414</b>	<b>\$ 5,384,497</b>
Capital acquisition refunding bonds, Series of 2012, due 2015-2023, at weighted-average rates of 4.15 percent as of June 30, 2014 and 3.68 percent as of June 30, 2013.....	\$ 37,235	\$ -	\$ 3,635	\$ 33,600
Term financings, due 2029, at zero percent interest as of June 30, 2014 and 2013.....	11,107	-	4,827	6,280
<b>Subtotal.....</b>	<b>48,342</b>	<b>-</b>	<b>8,462</b>	<b>39,880</b>
<b>Plus: unamortized premium.....</b>	<b>4,364</b>	<b>-</b>	<b>812</b>	<b>3,552</b>
<b>Total capital and other financing obligations</b>	<b>\$ 52,706</b>	<b>\$ -</b>	<b>\$ 9,274</b>	<b>\$ 43,432</b>

The note and bond indentures, among other things, require the PHEAA to comply with various covenants. Student loans and investments collateralize all student loan auction rate notes, floating and variable rate notes, and financings. As of June 30, 2014, \$7,300,000 of student loan principal and related interest receivable and \$253,900 of cash equivalents collateralized the \$7,100,000 of student loan financings and notes and bonds payable.

The student loan auction rate security bonds, floating rate notes, financing warehouse facilities and other term financings are non-recourse obligations to the PHEAA's unrestricted net position and to the Commonwealth, except for the \$200,000 of student loan financings and \$33,600 of capital acquisition refunding bonds, Series of 2012, which are borrowings from the Commonwealth's Treasury Department.

PHEAA reported debt service requirements subsequent to June 30, 2014, based upon stated maturities for student loan bonds and estimated interest payments for variable-rate debt after considering terms renegotiated after June 30, 2014 are as follows:

## NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Year of maturity	Student Loan Bonds and Notes		Other Financing Obligations	
	Principal	Interest	Principal	Interest
2015.....	\$ 444,140	\$ 65,096	\$ 3,660	\$ 2,032
2016.....	-	62,493	3,745	1,157
2017.....	-	62,191	3,895	998
2018.....	8,600	62,179	4,055	833
2019.....	14,849	62,142	4,230	661
2020-24.....	47,072	309,653	14,015	880
2025-29.....	542,068	301,033	-	-
2030-34.....	370,790	275,312	6,280	-
2035-39.....	2,426,060	242,559	-	-
2040-44.....	2,244,851	133,593	-	-
2045-49.....	979,925	22,345	-	-
<b>Total.....</b>	<b>\$ 7,078,355</b>	<b>\$ 1,598,596</b>	<b>\$ 39,880</b>	<b>\$ 6,561</b>

## Reported as:

Total principal owed on student loan

auction rate security bonds payable.....	\$ 1,681,200	\$ -
Notes payable - current.....	444,140	-
Notes payable - non-current.....	4,940,357	-
Discount on student loan floating rate notes.....	12,658	-
Other financing obligations, current.....	-	3,660
Other financing obligations, non-current.....	-	39,772
Unamortized premium.....	-	(3,552)
<b>Total principal .....</b>	<b>\$ 7,078,355</b>	<b>\$ 39,880</b>

The PHEAA reported \$7,100,000 of its total \$7,300,000 of student loan bonds, notes, and financings as variable-rate debt, of which \$13,800 reset based upon auctions every 7 days, \$1,600,000 reset based upon auctions every 28 days, \$104,800 reset based upon auctions every 35 days, \$5,200,000 is indexed to the one-month or three-month LIBOR (London interbank offered rate), \$244,100 is indexed to the asset-backed commercial paper rate. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA, payable only from related pledged assets.

In addition to the PHEAA's reported current notes payable of \$444,140 at June 30, 2014, PENNVEST reported current notes payable of \$51,000. Also, in addition to the PHEAA's reported non-current notes payable of \$4,940,357 at June 30, 2014, Component Unit (CU) organizations of the SSHE reported non-current notes payable of \$288,071.

## NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)

## Long-Term Obligations

Significant revenue bond obligations of PTC (as of May 31, 2014) and PHFA (as of June 30, 2014), changes during the fiscal year and annual principal and interest payments for long-term debt outstanding are as follows:

<b>REVENUE BONDS PAYABLE</b>	<b>Issue Dates</b>	<b>Interest Rates</b>	<b>Maturity Dates Through</b>	<b>Balance June 1, 2013, As Restated</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance May 31, 2014</b>
PTC.....	2001-14	various	2054	\$ 8,698,310	\$ 1,702,379	\$ 896,310	\$ 9,504,379
Less: unamortized bond discount.....				(8,236)	(416)	(426)	(8,226)
Add: unamortized bond premium.....				187,096	36,023	11,367	211,752
<b>TOTAL .....</b>				<b>\$ 8,877,170</b>	<b>\$ 1,737,986</b>	<b>\$ 907,251</b>	<b>\$ 9,707,905</b>

<b>Year of Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015.....	\$ 184,675	\$ 369,849	\$ 554,524
2016.....	203,230	370,562	573,792
2017.....	227,740	396,877	624,617
2018.....	266,500	395,127	661,627
2019.....	284,425	408,506	692,931
2020-24.....	1,484,129	1,926,515	3,410,644
2025-29.....	1,276,384	1,675,859	2,952,243
2030-34.....	1,661,295	1,382,711	3,044,006
2035-39.....	2,102,098	971,981	3,074,079
2040-44.....	1,400,990	421,491	1,822,481
2045-49.....	342,728	76,249	418,977
2050-54.....	70,185	3,903	74,088
<b>Total.....</b>	<b>\$ 9,504,379</b>	<b>\$ 8,399,630</b>	<b>\$ 17,904,009</b>

Note: The balance as of June 1, 2013 was restated due to PTC's implementation of GASB Statement No. 65.

<b>REVENUE BONDS PAYABLE</b>	<b>Issue Dates</b>	<b>Interest Rates</b>	<b>Maturity Dates Through</b>	<b>Balance July 1, 2013, As Restated</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2014</b>
PHFA.....	1999-11	various	2043	3,706,709	-	373,244	3,333,465
Add: unamortized bond premium.....				8,652	-	2,104	6,548
Less: deferred net refunded loss.....				(12,638)	12,638	-	-
<b>TOTAL .....</b>				<b>\$ 3,702,723</b>	<b>\$ 12,638</b>	<b>\$ 375,348</b>	<b>\$ 3,340,013</b>

<b>Year of Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015.....	\$ 111,340	\$ 89,339	\$ 200,679
2016.....	130,010	86,831	216,841
2017.....	124,905	83,946	208,851
2018.....	129,745	81,008	210,753
2019.....	134,905	77,867	212,772
2020-24.....	706,315	333,867	1,040,182
2025-29.....	663,330	245,722	909,052
2030-34.....	613,830	157,083	770,913
2035-39.....	581,530	73,937	655,467
2040-44.....	137,555	6,507	144,062
<b>Total.....</b>	<b>\$ 3,333,465</b>	<b>\$ 1,236,107</b>	<b>\$ 4,569,572</b>

Note: The balance as of July 1, 2013 was restated due to PHFA's implementation of GASB Statement No. 65.

The tables below present significant bond obligations of SSHE at June 30, 2014 and changes during the fiscal year then ended, followed by principal and interest payments for long-term debt outstanding.

## NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

BONDS PAYABLE	Issue Dates	Interest Rates	Maturity Dates Through	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
SSHE.....	2004-14	various	2039	\$ 899,805	\$ 77,025	\$ 116,940	\$ 859,890

Year of Maturity	Principal	Interest	Total
2015.....	\$ 54,695	\$ 41,053	\$ 95,748
2016.....	61,025	38,303	99,328
2017.....	62,560	35,408	97,968
2018.....	61,475	32,381	93,856
2019.....	64,985	29,437	94,422
2020-24.....	301,900	102,137	404,037
2025-29.....	152,420	44,189	196,609
2030-34.....	77,515	15,368	92,883
2035-39.....	23,315	2,267	25,582
<b>Total.....</b>	<b>\$859,890</b>	<b>\$ 340,543</b>	<b>\$ 1,200,433</b>

Note: The total principal obligations outstanding does not include \$1,199,328 reported by component units of the SSHE.

**Conduit Debt**

The PHFA is financing a portion of housing projects through the issuance of limited obligation or special limited obligation bonds to provide more affordable housing in the Commonwealth. These bonds are secured solely by the specific housing properties and related revenues or by appropriations to be paid by the U.S. Department of Housing and Urban Development. At June 30, 2014, the PHFA had \$74,403 of such bonds outstanding. Neither the PHFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds payable are reported in the accompanying financial statements.

The State Public School Building Authority (SPSBA) finances construction and improvement projects for public schools through the issuance of tax-exempt instruments (bonds, notes or other obligations) for the purpose of making lower cost tax-exempt financing available to school districts and community colleges. The debt instruments issued by SPSBA represent limited obligations payable solely from lease/loan payments made by the borrowing institutions and related assets held by trustees. At June 30, 2014, the SPSBA had \$3,252,973 of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA) finances projects through the issuance of tax-exempt instruments (bonds, notes or other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2014, the PHEFA had \$6,724,685 of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from PEDFA financed project revenues. At June 30, 2014, the PEDFA had \$6,039,653 of debt outstanding of which \$3,115,668 represented



**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

conduit debt. Neither the PEDFA nor the Commonwealth has any obligation for this conduit debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

**Refunded Debt**

In July 2013, the PTC issued \$265,155 2013 Series B Senior Bonds at a variable rate with a maturity date of December 1, 2020. The 2013 B Senior Bonds were issued primarily for the current refunding of the PTC's 2009 Series C Variable Rate Turnpike Revenue Bonds (\$52,070) and the PTC's 2011 Series D Variable Rate Turnpike Revenue Bonds (\$17,455), both with maturity dates of December 1, 2013; the PTC's 2010 Series A-1 Multi-Modal Revenue Refunding Bonds (\$97,230) and the PTC's 2010 Series A-2 Multi-Modal Revenue Refunding Bonds (\$97,140), both with a mandatory redemption date of July 2013; and for the payment of the costs of issuance of the 2013 Series B Senior Bonds.

In October 2013, the PTC issued \$27,785 2013 Series A Senior Oil Franchise Tax Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2024. The 2013 A Senior Oil Franchise Tax Revenue Refunding Bonds were issued primarily for the current refunding of the \$30,775 December 1, 2024 maturity of the PTC's Oil Franchise Tax Senior Revenue Bonds, Series A of 2003 and for the payment of the costs of issuance of the 2013 A Senior Oil Franchise Tax Revenue Refunding Bonds. The refunding of the 2003 A Senior Oil Franchise Tax Bonds allowed the PTC to reduce its debt service by approximately \$4,760. The transaction resulted in an economic gain of approximately \$3,480.

In October 2013, the PTC issued \$32,035 2013 Series B Subordinate Oil Franchise Tax Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2025. The 2013 B Subordinate Oil Franchise Tax Revenue Refunding Bonds were issued primarily to partially refund the \$34,695 December 1, 2025 maturity of the PTC's 2003 B Oil Franchise Tax Subordinate Revenue Bonds and for the payment of the costs of issuance of the 2013 B Subordinate Oil Franchise Tax Revenue Refunding Bonds. The partial refunding of the 2003 B Subordinate Oil Franchise Tax Bonds allowed the PTC to reduce its debt service by approximately \$4,220. The transaction resulted in an economic gain of approximately \$2,990.

In May 2014, the PTC issued \$444,280 2014 Series B-1 Senior Bonds at a variable rate with a maturity date of December 1, 2021. The 2014 B-1 Senior Bonds were issued primarily for the current refunding of existing variable rate debt which included the PTC's 2008 Series B-1 Multi-Modal Revenue Bonds (\$100,000), the PTC's 2008 Series C Multi-Modal Revenue Bonds (\$50,000), the PTC's 2011 Series C-1 Multi-Modal Revenue Bonds (\$230,745), and the PTC's 2011 Series C-2 Multi-Modal Revenue Bonds (\$61,500), all with a mandatory redemption date of May 2014. The bonds were also issued for payment of the costs of issuance for the 2014 Series B-1 Senior Bonds.

In May 2014, the SSHE used the net proceeds from the Series AP revenue bonds to current refund Series Z and AA bonds. This refunding was performed to reduce debt service by approximately \$6,448 and resulted in an economic gain of approximately \$5,833.

At June 30, 2013, \$5,910 of bonds that were previously reported by the PENNVEST have been defeased through refundings. At June 30, 2014 the amount of defeased debt was \$2,630.

**Other Post Employment Benefits (OPEB)**

Each DPCU with employees participates in the Commonwealth's Retired Employees Health Program (REHP) except for the PTC and the PHFA, which have both established and sponsor their own, separate OPEB plans. The SSHE participates in the REHP, for certain employees, as well as its own, separate SSHE OPEB plan. All separate, non-REHP plans, have been established under pertinent statutory authority. All benefit provisions and contributions are established by the plan sponsors. Net OPEB stand-alone plan obligations (assets) for PTC are reported at May 31, 2014 and the PHFA and SSHE at June 30, 2014 as follows:

**NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

As of and for the fiscal year ended June 30, 2014	PTC (May 31, 2014)	PHFA	SSHE
Annual required contributions.....	\$ 18,353	\$ 5,526	\$ 127,861
Interest on net OPEB obligation.....	(4,069)	970	39,257
Adjustment to annual required contribution.....	8,922	(1,324)	(49,536)
Annual OPEB cost (expense).....	23,206	5,172	117,582
Qualifying contributions.....	(44,228)	(888)	(44,201)
Increase in net OPEB obligation/(asset).....	(21,022)	4,284	73,381
Net OPEB obligation/(asset), July 1, 2013.....	(58,127)	21,567	933,690
Net OPEB obligation/(asset), June 30, 2014....	\$ (79,149)	\$ 25,851	\$ 1,007,071

As of and for the fiscal year ended June 30, 2014	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued	Funded Ratio (assets as % of AAL)	Estimated Covered Payroll	UAAL as a Percentage of Covered
PTC (May 31, 2014).....	\$ 271,265	\$ 283,133	\$ 11,868	95.8%	\$ 126,699	9.4%
PHFA.....	\$ -	\$ 49,455	\$ 49,455	0.0%	\$ 16,175	305.7%
SSHE.....	\$ -	\$ 1,473,632	\$ 1,473,632	0.0%	\$ 583,755	252.4%

Note: The PHFA report their OPEB liability as other noncurrent liabilities on the Statement of Net Position.

**Commitments and Contingencies****PTC**

PTC Commitment to the PG: In July 2007, Act 44 was signed into law and, among other things, provides funding for roads, bridges and transit throughout the Commonwealth. Under Act 44, the PTC and the Pennsylvania Department of Transportation (PennDOT) established a 50 year Lease and Funding Agreement (Agreement). Act 44 and the Agreement require the PTC to make scheduled quarterly payments to the PennDOT. Subsequently, in April 2014, the PTC and PennDOT executed Amendment Number One to the aforementioned Lease and Funding Agreement in accordance with Act 89 of November 2013. In accordance with Act 89 and the Amended Funding Agreement, the PTC's aggregate annual payment to PennDOT for fiscal year 2014 through fiscal year 2022 remains at \$450,000 and at least \$30,000 of the payment must be made from current revenues. Commencing in fiscal year 2023 through the term of the Amended Funding Agreement, the PTC's aggregate annual payment to PennDOT is \$50,000, which must be paid from current revenues. Through June 30, 2014 the PTC has paid the PennDOT \$4,300,000; the Motor License Fund received \$2,250,000 and the Public Transportation Trust Fund received \$2,050,000.

Due to the significance of the quarterly payments under Act 44, the PTC currently does not have excess cash from operations to finance these required payments due to PennDOT. Therefore, the PTC plans to continue to increase toll rates annually and to issue debt for the foreseeable future to finance the majority of these payments. Act 44 authorizes the PTC to issue Special Revenue Bonds up to an aggregate principal amount of \$5,000,000 (not to exceed \$600,000 per calendar year). Through its fiscal year ended May 31, 2014, the PTC issued \$936,297 of Special Revenue Bonds with an accreted value of \$970,503.

**Deferred Outflows and Inflows of Resources**

The following table discloses the deferred outflows of resources and deferred inflows of resources at June 30, 2014 (May 31, 2014 for the PTC):

## NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Deferred Outflows of Resources	PTC	PHFA	PHEAA	SSHE	Total
Hedge derivatives.....	\$ 49,684	\$ 31,535	\$ -	\$ -	\$ 81,219
Deferred loss on bond refundings.....	164,194	10,573	2,728	6,527	184,022
	<u>\$ 213,878</u>	<u>\$ 42,108</u>	<u>\$ 2,728</u>	<u>\$ 6,527</u>	<u>\$ 265,241</u>
Deferred Inflows of Resources	PTC	PHFA	PHEAA	SSHE	Total
Deferred gain on bond refundings.....	\$ 1,566	\$ -	\$ 192,404	\$ 332	\$ 194,302
Deferred gain on sales leaseback.....	-	-	548	-	548
Service concession arrangements.....	122,994	-	-	-	122,994
Total.....	<u>\$ 124,560</u>	<u>\$ -</u>	<u>\$ 192,952</u>	<u>\$ 332</u>	<u>\$ 317,844</u>

## Subsequent Events

## PTC

On June 2, 2014, the PTC issued \$69,870 2014 Series B-2 Senior Revenue Bonds at a variable rate with a final maturity date of December 1, 2016. The 2014 B-2 Bonds were issued primarily to refund the 2009 Series C Bonds and the 2011 Series D Bonds.

On June 17, 2014, the PTC executed a partial reversal of one of the Mainline Constant Maturity Swaps associated with the PTC's 2012 Series B, 2013 Series B and 2014 Series B-1 Bonds. JPMorgan Chase Bank was the winning bidder with an offer of \$4,068 which was received by the PTC. This payment was in lieu of interest payments that may have been received by the PTC through July 2, 2018, which is the reversal maturity date.

On July 2, 2014, the PTC executed a partial reversal of one of the Mainline Constant Maturity Swaps associated with the PTC's 2012 Series B, 2013 Series B and 2014 Series B-1 Bonds. PNC was the winning bidder with an offer of \$4,179 which was received by the PTC. This payment was in lieu of interest payments that may have been received by the PTC through July 2, 2018, which is the reversal maturity date.

On July 22, 2014 the PTC executed a partial reversal of one of the Constant Maturity Swaps associated with the PTC's Oil Franchise Tax 2003 Series C Bonds. This reversal was executed at a level of \$3,270 which Royal Bank of Canada paid to the PTC. This payment was in lieu of interest payments that may have been received by the PTC through May 15, 2018, which is the reversal maturity date.

On August 26, 2014, the PTC executed a partial reversal of one of the Constant Maturity Swaps associated with the PTC's Oil Franchise Tax 2003 Series C Bonds. This reversal was executed at a level of \$3,292 which Wells Fargo will pay to the PTC. This payment is in lieu of interest payments that may have been received by the PTC from JPMorgan through November 15, 2018, which is the reversal maturity date.

On September 17, 2014, the PTC issued \$288,675 Special Obligation Bonds (Federally Taxable) Series 2014. The 2014 Special Obligation Bonds were issued to: current refund certain PTC bonds that were previously escrowed to maturity (with a retention of call rights) and were originally issued to finance PTC projects for the Mon-Fayette Expressway and Southern Beltway sections of the Pennsylvania Turnpike (the "System"); provide funds for certain capital improvements to the Mon-Fayette Expressway and Southern Beltway sections of the System and to pay for the costs of issuing the Bonds.

On October 28, 2014, the PTC issued \$201,395 Turnpike Subordinate Bonds Series B of 2014. The Subordinate Revenue Series B bonds were issued primarily to provide funds, together with a \$15,000 equity contribution by the Commission; to finance the costs of making payments to the Pennsylvania Department of Transportation in accordance with Act 44 and 89 to fund certain grants to mass transit agencies and for certain multi-modal

**NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

transportation projects; funding any necessary deposit to the Debt Service Reserve Fund under the Subordinate Indenture with respect of the 2014 B bonds and to pay for the cost of issuing the Bonds.

On October 28, 2014, the PTC executed a partial reversal of the Bank of New York Mellon Mainline Constant Maturity Swap. The swap is associated with the PTC's 2012 Series B, 2013 Series B and 2014 Series B-2 Bonds. This payment received by the PTC of \$4,140 was in lieu of interest payments that may have been received by the Commission through January 1, 2019 which is the reversal maturity date.

On October 29, 2014, the PTC executed a partial reversal of one of the Merrill Lynch Derivative Products Mainline Constant Maturity Swap. The swap is associated with the PTC's 2012 Series B, 2013 Series B and 2014 Series B-2 Bonds. The payment received by the PTC of \$3,150 was in lieu of interest payments that may have been received by the PTC through January 1, 2019 which is the reversal maturity date.

On November 26, 2014, the PTC issued \$239,620 Turnpike Revenue Refunding Bonds Series of 2014. The Turnpike Revenue Refunding Bonds were issued primarily to current refund the PTC's outstanding Turnpike Revenue Bonds, Series A of 2004 and to pay for the cost of issuing the Bonds.

On December 18, 2014 the PTC issued \$294,225 Turnpike Revenue Bonds Series C of 2014. The bonds were issued to provide funds to finance costs for various capital expenditures; reimburse the PTC for certain costs previously incurred in connection with such capital expenditures; capitalized interest on the 2014C bonds; debt service reserve fund deposit and to pay for the cost of issuing the 2014C bonds.

**PHEAA**

On August 8, 2014, the PHEAA Student Loan Foundation, Inc. (the Foundation), entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2014-3 ("2014-3 Trust"), a statutory trust. The 2014-3 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. On September 18, 2014, the 2014-3 Trust issued \$631,100 of original principal amount of student loan asset backed notes, Class A ("Class A Notes"), at par, and \$15,600 of original principal amount of student loan asset backed notes, Class B ("Class B Notes"), at a discount. The Class A Notes were issued with an interest rate of 1-month LIBOR plus 0.59% and a final maturity date of August 25, 2040. The Class B Notes had a price to public of 89.75%, which resulted in a discount of \$1,600. The Class B Notes were issued with an interest rate of 1-month LIBOR plus 1.50% and a final maturity date of June 25, 2043. The 2014-3 Trust used the proceeds from the Class A Notes and Class B Notes and the cash portion of the capital contribution to purchase approximately \$638,400 of financed student loans indirectly through the Foundation from PHEAA, pay cost of issuance fees and deposit amounts into various funds established under the indenture of trust. On that same day, PHEAA used the proceeds from the above student loan sale to pay down student loan financing warehouse facilities and release prior liens on financed student loans from various trusts.

On October 31, 2014, PHEAA, through a warehouse facility trust, executed a borrowing notice with a financial institution, which requested a borrowing of \$954,800 with a November 6, 2014 borrowing date. The proceeds from the borrowing notice along with proceeds from a student loan financing and contributions from PHEAA were used to purchase at par \$1,000,000 of student loans from the 1997 Master Trust.

**PHFA**

On July 8, 2014, Sumitomo Mitsui Banking Corporation ("Sumitomo") replaced JP Morgan as the liquidity provider for all the PHFA's Single Family Program VRDO's for which JP Morgan had been the liquidity provider. This includes series 2006-93B, 2006-95C, 2007-98C, 2007-99C and 2007-100C, as listed in the Variable Rate Demand Obligations section of Note 9 in their financial statements. The agreements with Sumitomo are scheduled to expire on July 8, 2019.

**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)****All Component Units Accounting Change**

The GASB issued Statement No. 68 “Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27” in June 2012. This statement establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result, component units will be required to measure and record its proportionate share of the net pension obligations for its participation in their respective pension plan, which is expected to have a significant impact on their financial statements.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Required Supplementary Information

**Commonwealth of Pennsylvania**  
**Schedules of Funding Progress and Employer Contributions**  
Retired Employees Health Plan (REHP)  
Retired Pennsylvania State Police Program (RPSPP)  
PA Judiciary  
PA House of Representatives  
PA Senate  
For the Fiscal Year Ended June 30, 2014  
(\$ amounts in millions)

<b>Funding Progress:</b>	<b>REHP</b>	<b>RPSPP</b>	<b>PA Judiciary</b>	<b>PA House of Representatives</b>	<b>PA Senate</b>	<b>Total Primary Government</b>
<b>As of and for the fiscal year ended June 30, 2014</b>						
Actuarial Valuation Date.....	July 1, 2013	July 1, 2013	July 1, 2014	July 1, 2012	July 1, 2013	
Actuarial Value of Assets.....	\$ 82.06	\$ 69.48	\$ -	\$ -	\$ -	\$ 151.54
Actuarial Accrued Liability (AAL).....	\$ 13,234.04	\$ 3,188.19	\$ 502.60	\$ 386.30	\$ 220.87	\$ 17,532.00
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,151.98	\$ 3,118.71	\$ 502.60	\$ 386.30	\$ 220.87	\$ 17,380.46
Funded Ratio (assets as % of AAL).....	0.6%	2.2%	0.0%	0.0%	0.0%	0.9%
Estimated Annual Covered Payroll.....	\$ 4,264.00	\$ 391.00	\$ 200.60	\$ 95.32	\$ 49.75	\$ 5,000.67
UAAL as a Percentage of Covered Payroll.....	308.4%	797.6%	250.5%	405.3%	444.0%	347.6%

<b>As of and for the fiscal year ended June 30, 2013</b>						
Actuarial Valuation Date.....	July 1, 2013	July 1, 2013	July 1, 2012	July 1, 2012	July 1, 2012	
Actuarial Value of Assets.....	\$ 82.06	\$ 69.48	\$ -	\$ -	\$ -	\$ 151.54
Actuarial Accrued Liability (AAL).....	\$ 13,234.04	\$ 3,188.19	\$ 440.70	\$ 386.30	\$ 241.13	\$ 17,490.36
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,151.98	\$ 3,118.71	\$ 440.70	\$ 386.30	\$ 241.13	\$ 17,338.82
Funded Ratio (assets as % of AAL).....	0.6%	2.2%	0.0%	0.0%	0.0%	0.9%
Estimated Annual Covered Payroll.....	\$ 4,264.00	\$ 391.00	\$ 198.00	\$ 95.32	\$ 48.92	\$ 4,997.24
UAAL as a Percentage of Covered Payroll.....	308.4%	797.6%	222.6%	405.3%	492.9%	347.0%

<b>As of and for the fiscal year ended June 30, 2012</b>						
Actuarial Valuation Date.....	July 1, 2011	July 1, 2011	July 1, 2012	July 1, 2010	July 1, 2011	
Actuarial Value of Assets.....	\$ 70.74	\$ 59.90	\$ -	\$ -	\$ -	\$ 130.64
Actuarial Accrued Liability (AAL).....	\$ 12,907.79	\$ 2,492.28	\$ 425.50	\$ 352.27	\$ 217.75	\$ 16,395.59
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 12,837.05	\$ 2,432.38	\$ 425.50	\$ 352.27	\$ 217.75	\$ 16,264.95
Funded Ratio (assets as % of AAL).....	0.5%	2.4%	0.0%	0.0%	0.0%	0.8%
Estimated Annual Covered Payroll.....	\$ 3,839.00	\$ 447.00	\$ 194.50	\$ 96.16	\$ 48.45	\$ 4,625.11
UAAL as a Percentage of Covered Payroll.....	334.4%	544.2%	218.7%	366.3%	449.5%	351.7%

<b>Employer Contributions:</b>	<b>REHP</b>	<b>RPSPP</b>	<b>PA Judiciary</b>	<b>PA House of Representatives</b>	<b>PA Senate</b>	<b>Total Primary Government</b>
<b>For the fiscal year ended June 30, 2014</b>						
Annual required contribution.....	\$ 893.07	\$ 215.56	\$ 39.96	\$ 43.20	\$ 13.76	\$ 1,205.55
Percentage contributed.....	77.3%	35.7%	54.9%	32.8%	44.3%	67.2%
<b>For the fiscal year ended June 30, 2013</b>						
Annual required contribution.....	\$ 864.83	\$ 207.14	\$ 35.50	\$ 43.20	\$ 17.40	\$ 1,168.07
Percentage contributed.....	71.0%	33.0%	57.4%	30.5%	40.9%	61.9%
<b>For the fiscal year ended June 30, 2012</b>						
Annual required contribution.....	\$ 866.77	\$ 174.23	\$ 34.07	\$ 41.33	\$ 17.02	\$ 1,133.42
Percentage contributed.....	72.5%	39.5%	63.0%	31.3%	37.5%	65.1%

- The notes to required supplementary information are an integral part of this schedule. -

Following is a list of assumptions used in the August 2013 valuation for the REHP and RPSPP plans.

**Economic Assumptions** - The discount rate used is 4.75 percent, there was no change from the September 2011 valuation.

**Healthcare Assumptions** - The healthcare trend rates were modified to reflect the SOA Long-Run Medical Cost Trend Getzen Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures.

**Demographic assumptions** - The demographic assumptions used for valuing the liabilities of the post-retirement medical plan are those used for the actuarial valuation of the State Employees' Retirement System. The demographic assumptions include the rate of mortality, the rate of withdrawal, the rate of retirement, and the rate of disability. Ancillary demographic assumptions include the age of female spouses, coverage rates and participation rates.



**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Major Funds  
 General Fund  
 For the Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	<b>Original Budget</b>	<b>Difference</b>	<b>Final Budget</b>	<b>Difference</b>	<b>Actual (Budgetary Basis)</b>
<b>REVENUES:</b>					
State Programs:					
Corporation taxes.....	\$ 4,981,400	\$ 63,500	\$ 5,044,900	\$ (146,517)	\$ 4,898,383
Consumption taxes.....	10,577,600	(53,600)	10,524,000	(71,463)	10,452,537
Other taxes.....	13,067,700	(6,500)	13,061,200	(314,056)	12,747,144
<b>TOTAL TAX REVENUE.....</b>	<b>28,626,700</b>	<b>3,400</b>	<b>28,630,100</b>	<b>(532,036)</b>	<b>28,098,064</b>
Nontax revenue.....	489,200	(3,400)	485,800	23,288	509,088
<b>TOTAL REVENUE STATE.....</b>	<b>29,115,900</b>	<b>-</b>	<b>29,115,900</b>	<b>(508,748)</b>	<b>28,607,152</b>
less: Refunds.....	(1,275,000)	-	(1,275,000)	170,000	(1,105,000)
plus: Departmental services.....	2,795,329	-	2,795,329	587,454	3,382,783
<b>TOTAL STATE PROGRAMS.....</b>	<b>30,636,229</b>	<b>-</b>	<b>30,636,229</b>	<b>248,706</b>	<b>30,884,935</b>
Federal programs.....	21,116,540	(112,305)	21,004,235	(512,397)	20,491,838
<b>TOTAL REVENUES.....</b>	<b>51,752,769</b>	<b>(112,305)</b>	<b>51,640,464</b>	<b>(263,691)</b>	<b>51,376,773</b>
<b>EXPENDITURES:</b>					
State programs.....	31,217,798	69,864	31,287,662	490,164	31,777,826
Federal programs.....	21,116,540	(112,305)	21,004,235	(512,397)	20,491,838
<b>TOTAL EXPENDITURES.....</b>	<b>52,334,338</b>	<b>(42,441)</b>	<b>52,291,897</b>	<b>(22,233)</b>	<b>52,269,664</b>
<b>REVENUES UNDER EXPENDITURES.....</b>	<b>(581,569)</b>	<b>(69,864)</b>	<b>(651,433)</b>	<b>(241,458)</b>	<b>(892,891)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Current year lapses.....	-	70,000	70,000	(70,000)	-
Prior year lapses.....	-	251,500	251,500	175,104	426,604
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>321,500</b>	<b>321,500</b>	<b>105,104</b>	<b>426,604</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>(581,569)</b>	<b>251,636</b>	<b>(329,933)</b>	<b>(136,354)</b>	<b>(466,287)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2013, REVISED.....</b>	<b>540,918</b>	<b>5,000</b>	<b>545,918</b>	<b>1,000</b>	<b>546,918</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2014, REVISED.....</b>	<b>\$ (40,651)</b>	<b>\$ 256,636</b>	<b>\$ 215,985</b>	<b>\$ (135,354)</b>	<b>\$ 80,631</b>

\* Current year lapse amount in the Actual (Budgetary Basis column) is already netted out of the state expenditure amount.

For Supporting Documentation, please go to [www.budget.state.pa.us](http://www.budget.state.pa.us)

- The notes to required supplementary information are an integral part of this schedule. -

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Major Funds  
 Special Revenue Fund-Motor License  
 For the Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
<b>REVENUES:</b>					
State Programs:					
Liquid fuels taxes.....	\$ 1,323,600	\$ 2,500	\$ 1,326,100	\$ (31,668)	\$ 1,294,432
Motor licenses and fees.....	871,400	15,100	886,500	7,385	893,885
Other Motor License Fund revenues *.....	273,800	(16,152)	257,648	799	258,447
<b>TOTAL REVENUE STATE.....</b>	<b>2,468,800</b>	<b>1,448</b>	<b>2,470,248</b>	<b>(23,484)</b>	<b>2,446,764</b>
plus: Departmental services *.....	98,957	-	98,957	(33,347)	65,610
<b>TOTAL STATE PROGRAMS.....</b>	<b>2,567,757</b>	<b>1,448</b>	<b>2,569,205</b>	<b>(56,831)</b>	<b>2,512,374</b>
Federal programs.....	1,584,741	-	1,584,741	(28,966)	1,555,775
<b>TOTAL REVENUES.....</b>	<b>4,152,498</b>	<b>1,448</b>	<b>4,153,946</b>	<b>(85,797)</b>	<b>4,068,149</b>
<b>EXPENDITURES:</b>					
State programs.....	2,601,519	-	2,601,519	(41,755)	2,559,764
Federal programs.....	1,584,741	-	1,584,741	(28,966)	1,555,775
<b>TOTAL EXPENDITURES.....</b>	<b>4,186,260</b>	<b>-</b>	<b>4,186,260</b>	<b>(70,721)</b>	<b>4,115,539</b>
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(33,762)</b>	<b>1,448</b>	<b>(32,314)</b>	<b>(15,076)</b>	<b>(47,390)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Current year lapses **.....	-	5,000	5,000	(5,000)	-
Prior year lapses.....	-	25,352	25,352	19,248	44,600
<b>TOTAL OTHER FINANCING SOURCES.....</b>	<b>-</b>	<b>30,352</b>	<b>30,352</b>	<b>14,248</b>	<b>44,600</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>(33,762)</b>	<b>31,800</b>	<b>(1,962)</b>	<b>(828)</b>	<b>(2,790)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2013.....</b>	<b>107,584</b>	<b>-</b>	<b>107,584</b>	<b>-</b>	<b>107,584</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2014.....</b>	<b>\$ 73,822</b>	<b>\$ 31,800</b>	<b>\$ 105,622</b>	<b>\$ (828)</b>	<b>\$ 104,794</b>

\* Act 44 receipts are included in Other Motor License Fund Revenues.

\*\* Current year lapse amount in the Actual (Budgetary Basis column) is already netted out of the state expenditure amount.

For Supporting Documentation, please go to [www.budget.state.pa.us](http://www.budget.state.pa.us)

- The notes to required supplementary information are an integral part of this schedule. -

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION** *(amounts in thousands)*

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### **Note 1 - Budget Preparation Process**

The process of preparing the General Fund Budget for the Commonwealth of Pennsylvania begins nearly one year before the new budget is enacted and takes effect on July 1 each year. The budget process begins in August of the year previous to the budget year with the distribution of both the Budget Instructions and Program Policy Guidelines by the Office of the Budget and the Governor's Office, respectively. These provide detailed guidelines and define major policy issues to be considered when agencies complete their budget requests. As required by statute, agencies must prepare budgets that indicate the cost of supporting activities at the level expected in the immediate budget year and the ensuing four budget years. The five-year horizon does not include future program changes but considers the requirements and demands of current law, regulation, policy and program decisions.

Agencies submit budget requests to the Secretary of the Budget beginning in early October. From October through January, the Office of the Budget reviews these requests for accuracy and adherence to policy guidelines and prepares funding recommendations for the Secretary of the Budget and the Governor.

During December, the Governor meets with leaders of the General Assembly to inform them of anticipated spending and revenue levels and to discuss related budgetary issues. The Governor then conducts reviews to make the final budget decisions. The Governor's Executive Budget is finalized in January and is submitted to the General Assembly in early February.

After receiving the budget document, the appropriations committees of both houses of the legislature hold hearings to review agency funding requests. The General Assembly passes the budget in the form of a General Appropriations Bill and individual appropriations bills. At the time of passage of these bills and their presentation to the Governor, the official revised revenue estimates for the budget year are issued. If the combined appropriations bills passed by the legislature exceed the revenue estimates, the Governor is required and has the authority to either veto entire appropriations bills or to reduce the amount of appropriations in order to produce a budget that is in balance. The Governor also has the power to reduce or veto any specific appropriation even if the total appropriations do not exceed estimated revenues. The Governor's signing of the appropriations bills and any revenue bills is the last step in the approval stage of the budget.

Additional information regarding Pennsylvania's budgeting process may be located at: <http://www.budget.state.pa.us> and click on Current and Proposed Commonwealth Budgets.

### **Note 2 – Basis of Budgeting**

On the budgetary basis, certain estimated tax revenue accruals are recorded at fiscal year-end for the **General Fund** and the **Motor License Fund**, a Special Revenue Fund. Accruals include sales and use taxes and personal income taxes, both applicable to the **General Fund**, and liquid fuels taxes applicable to the **Motor License Fund**. These taxes are estimated to be owed to the Commonwealth but are not collected by fiscal year-end. Actual budgetary federal program revenues are recorded in amounts equal to federal expenditures. Also, estimated encumbrances and unspent appropriation balances are available for all funds at fiscal year-end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriation authority but paid in the subsequent year. Over-estimates of prior year encumbrances and available appropriation balances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority.

Budgeted revenues in the Budgetary Comparison Schedules represent official estimates while expenditures represent amounts originally adopted or legally amended. Actual amounts are presented on the budgetary basis. Because the budgetary basis differs from the modified accrual basis of accounting for governmental funds, a reconciliation of the differences between budgetary basis and the modified accrual basis of reporting is presented.

### **Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts**

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, a Special Revenue Fund) and three nonmajor governmental funds (Workers' Compensation Administration, Banking Department, and Milk Marketing Special Revenue funds). The Budgetary Comparison Schedules for Budgeted Major and

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION *(amounts in thousands)*

Nonmajor Funds present comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals.

The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting for the major budgeted funds:

	General Fund			
	General Fund (Budgeted)	General Fund Components (Nonbudgeted)	Total	Motor License Fund
<b>Budgetary basis</b> – revenues and other sources under expenditures and other uses.....	\$ (466,287)	\$ -	\$ (466,287)	\$ (2,790)
<b>Adjustments:</b>				
<b><u>Basis differences</u></b>				
To adjust revenues, other financing sources and related receivables and unearned revenue.....	(2,170,475)	-	(2,170,475)	1,276,868
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	571,361	-	571,361	(1,214,550)
<b>Basis difference adjustments.....</b>	<b>(1,599,114)</b>	<b>-</b>	<b>(1,599,114)</b>	<b>62,318</b>
<b><u>Perspective differences</u></b>				
Nonbudgeted statutory funds which are financially reported as part of this fund:				
Revenues.....	-	405,906	405,906	311
Expenditures.....	-	(472,211)	(472,211)	(309)
<b>Perspective difference adjustments...</b>	<b>-</b>	<b>(66,305)</b>	<b>(66,305)</b>	<b>2</b>
<b>Net adjustments.....</b>	<b>(1,599,114)</b>	<b>(66,305)</b>	<b>(1,665,419)</b>	<b>62,320</b>
<b>Modified accrual basis</b> – net change in governmental fund balance.....	<b>\$ (2,065,401)</b>	<b>\$ (66,305)</b>	<b>\$ (2,131,706)</b>	<b>\$ 59,530</b>

The above revenue adjustments include net revenue accruals and unearned revenue, amounts to recognize certain pass-through grants, and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants, and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

### Note 4 – Budgetary Compliance – Legal Level of Budgetary Control

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION** (amounts in thousands)

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legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the **General Fund** includes \$173,132 in appropriation increases approved during the fiscal year ended June 30, 2014.

A separately available report, the “*Status of Appropriations*” (**General Fund**), demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2014. This report includes a variety of detailed information and summaries related to individual appropriations. A second “*Status of Appropriations*” report (for Special Funds) demonstrates compliance for the four budgeted Special Revenue funds: **Motor License**, Workers’ Compensation Administration, Banking Department and Milk Marketing. Both “*Status*” reports are available online at the Office of the Budget internet site: <http://www.budget.state.pa.us> and click on Financial Reports. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

To assist the user of the Budgetary Comparison Schedule, additional supporting documentation is available at <http://www.budget.state.pa.us> by clicking from the left side menu ‘Financial Reports’, and under the heading ‘Comprehensive Annual Financial Report’ click ‘select this link’ and finally click on ‘General Fund Budgetary Comparison Schedule Rationale’ and ‘Motor License Fund Budgetary Comparison Schedule Rationale’.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Combining Financial Statements

Including  
Nonmajor Budgetary Comparison Schedules

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**

June 30, 2014

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
<b>ASSETS</b>				
Cash.....	\$ 53,348	\$ -	\$ 4	\$ 53,352
Temporary investments.....	1,762,065	148,579	698,337	2,608,981
Long-term investments.....	1,538,364	-	95,240	1,633,604
Receivables (net):				
Taxes.....	-	-	25,700	25,700
Accounts.....	175,080	3,222	-	178,302
Investment income.....	5,833	2	95	5,930
Loans.....	-	-	1	1
Lease rentals.....	-	427	-	427
Investment sale proceeds.....	7,035	-	-	7,035
Other.....	24,205	-	-	24,205
Due from other funds.....	68,962	1,054	17,610	87,626
Due from pension trust funds.....	71	-	-	71
Due from component units.....	-	924	640	1,564
Due from Federal government.....	15,575	-	-	15,575
Due from political subdivisions.....	37	-	670	707
Advances to other funds.....	3,750	-	-	3,750
<b>TOTAL ASSETS.....</b>	<b>\$ 3,654,325</b>	<b>\$ 154,208</b>	<b>\$ 838,297</b>	<b>\$ 4,646,830</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 186,532	\$ 141,338	\$ 211,520	\$ 539,390
Investment purchases payable.....	15,360	-	-	15,360
Securities lending obligations.....	68,768	-	2,716	71,484
Due to other funds.....	20,260	-	34,326	54,586
Due to component units.....	36,477	-	122,000	158,477
Due to pension trust funds.....	1,492	-	3	1,495
Due to political subdivisions.....	34,435	-	44,029	78,464
Due to other governments.....	734	-	33	767
Unearned revenue.....	82,056	3,649	-	85,705
<b>TOTAL LIABILITIES.....</b>	<b>446,114</b>	<b>144,987</b>	<b>414,627</b>	<b>1,005,728</b>
<b>Deferred inflows of resources:</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>181,139</b>	<b>-</b>	<b>-</b>	<b>181,139</b>
<b>Fund balances:</b>				
Restricted.....	2,653,887	-	-	2,653,887
Committed.....	373,185	9,221	423,670	806,076
<b>TOTAL FUND BALANCES.....</b>	<b>3,027,072</b>	<b>9,221</b>	<b>423,670</b>	<b>3,459,963</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 3,654,325</b>	<b>\$ 154,208</b>	<b>\$ 838,297</b>	<b>\$ 4,646,830</b>



**Commonwealth of Pennsylvania**

**Combining Statement of Revenues, Expenditures, and Changes in Fund**

**Balances-Nonmajor Governmental Funds**

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Total</b>
<b>REVENUES:</b>				
Taxes.....	\$ 1,806,486	\$ -	\$ 262,681	\$ 2,069,167
Licenses and fees.....	801,031	-	-	801,031
Intergovernmental.....	571,695	27,169	-	598,864
Charges for sales and services.....	302,747	-	4,625	307,372
Investment income.....	152,354	24	10,255	162,633
Interest on notes and loans.....	-	-	808	808
Other.....	257,572	11,906	-	269,478
<b>TOTAL REVENUES .....</b>	<b>3,891,885</b>	<b>39,099</b>	<b>278,369</b>	<b>4,209,353</b>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	401,186	232	206,713	608,131
Protection of persons and property.....	542,232	-	6,677	548,909
Health and human services.....	523,166	-	-	523,166
Public education.....	611,898	-	14,191	626,089
Recreation and cultural enrichment.....	178,785	-	42,838	221,623
Economic development.....	255,695	-	285,326	541,021
Transportation.....	812,197	-	376,146	1,188,343
Capital outlay.....	9,786	-	494,480	504,266
Debt service:				
Principal retirement.....	-	752,105	-	752,105
Interest and fiscal charges.....	-	534,584	4,122	538,706
<b>TOTAL EXPENDITURES .....</b>	<b>3,334,945</b>	<b>1,286,921</b>	<b>1,430,493</b>	<b>6,052,359</b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES .....</b>	<b>556,940</b>	<b>(1,247,822)</b>	<b>(1,152,124)</b>	<b>(1,843,006)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	1,295,000	1,295,000
Refunding bonds issued.....	-	289,770	176	289,946
Premium on bonds/refunding bonds.....	-	47,825	155,263	203,088
Transfers in.....	230,206	1,219,303	-	1,449,509
Transfers out.....	(625,117)	-	(156,739)	(781,856)
Payment to refunded bond escrow agent.....	-	(336,896)	-	(336,896)
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b>(394,911)</b>	<b>1,220,002</b>	<b>1,293,700</b>	<b>2,118,791</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>162,029</b>	<b>(27,820)</b>	<b>141,576</b>	<b>275,785</b>
<b>FUND BALANCES JULY 1, 2013 (Restated).....</b>	<b>2,865,043</b>	<b>37,041</b>	<b>282,094</b>	<b>3,184,178</b>
<b>FUND BALANCES JUNE 30, 2014.....</b>	<b>\$ 3,027,072</b>	<b>\$ 9,221</b>	<b>\$ 423,670</b>	<b>\$ 3,459,963</b>

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Special Revenue Funds

Including  
Nonmajor Budgetary Comparison Schedules

## SPECIAL REVENUE FUNDS DESCRIPTION NONMAJOR FUNDS

Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

**Banking Fund** — to account for the administration of the Department of Banking and regulation of financial institutions. Revenue is received from fees, assessments, charges, and penalties collected or recovered from persons, firms, corporations, or associations regulated by the Department of Banking.

**Milk Marketing Fund** — to account for the operation of the Milk Marketing Board and to serve as a depository for amounts due to dairy farmers from underpayments by dealers. Revenue is received from license fees, fines, penalties, and permits relating to the milk industry.

**Workers' Compensation Administration Fund** — to account for the administration of the Pennsylvania Workers' Compensation Act and the Pennsylvania Occupational Disease Act. Insurance companies and self-insured businesses are assessed a periodic fee for costs incurred in administering these acts.

**Workers' Compensation Security Fund** — to account for the payment of workers' compensation claims to individuals who are insured by an insolvent insurance company and for the costs to administer the program. Funds are derived from an annual assessment on all insurance carriers authorized to transact and provide workers' compensation insurance in the Commonwealth.

**Tobacco Settlement Fund** — established to deposit all payments received by the Commonwealth pursuant to the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the Master Settlement Agreement, strategic contribution payments from the Master Settlement Agreement, and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program.

**Public Transportation Trust Fund** — to provide dedicated funding for public transportation in the Commonwealth. Revenues come from scheduled payments by the Pennsylvania Turnpike Commission, a portion of the Sales and Use Tax, and transfers from the Public Transportation Assistance Fund and the **Lottery** Fund. Monies in this fund are disbursed as grants to public transit agencies for operating costs (including Shared Ride and Free Transit for Older Pennsylvanians), capital and asset improvements, and programs of statewide significance.

**Gaming Fund** — to account for the administration of the Race Horse Development and Gaming Act. Revenue is received from license fees and a percentage of the gross terminal revenue generated by licensed gaming facilities.

**Other** — to account for programs related to restoration, conservation, protection, and management of natural resources; the payment of prescription drugs for eligible citizens 65 years or older; the preservation of historical landmarks; vocational rehabilitation services; administrative and regulatory activities of various departmental programs; and miscellaneous Commonwealth activities. This "Other" category is an aggregation of thirty-nine individual special revenue funds.

There are a total of forty-seven individual special revenue funds; the **Motor License** fund is reported as a Major Fund in the basic financial statements.

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**

Special Revenue Funds

June 30, 2014

(Amounts in thousands)

	Budgeted Funds								
	Banking	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust	Gaming	Other	Total
<b>ASSETS</b>									
Cash.....	\$ 50	\$ 5	\$ -	\$ 73	\$ -	\$ -	\$ 13,898	\$ 39,322	\$ 53,348
Temporary investments.....	7,086	3,773	106,539	81,268	162,263	133,358	764,403	503,375	1,762,065
Long-term investments.....	12,699	-	-	750,414	185,971	95,240	-	494,040	1,538,364
Receivables (net):									
Accounts.....	6,679	-	8	-	168,096	-	1	296	175,080
Investment income.....	1	-	-	5,596	48	15	93	80	5,833
Investment sale proceeds.....	-	-	-	7,035	-	-	-	-	7,035
Other.....	-	-	-	-	-	-	-	24,205	24,205
Due from other funds.....	12	1	5	-	-	48,097	41	20,806	68,962
Due from pension trust funds.....	-	-	-	-	-	-	-	71	71
Due from Federal government.....	-	-	-	-	1,331	-	-	14,244	15,575
Due from political subdivisions.....	37	-	-	-	-	-	-	-	37
Advances to other funds.....	-	-	-	750	-	-	-	3,000	3,750
<b>TOTAL ASSETS.....</b>	<b>\$ 26,564</b>	<b>\$ 3,779</b>	<b>\$ 106,552</b>	<b>\$ 845,136</b>	<b>\$ 517,709</b>	<b>\$ 276,710</b>	<b>\$ 778,436</b>	<b>\$ 1,099,439</b>	<b>\$ 3,654,325</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable and accrued liabilities.....	\$ 1,545	\$ 91	\$ 2,818	\$ 1,491	\$ 2,665	\$ 54,150	\$ 32,110	\$ 91,662	\$ 186,532
Investment purchases payable.....	-	-	-	15,360	-	-	-	-	15,360
Securities lending obligations.....	362	-	-	51,600	-	2,716	-	14,090	68,768
Due to other funds.....	77	33	146	232	1,163	9	6,292	12,308	20,260
Due to component units.....	-	-	-	-	-	-	18,437	18,040	36,477
Due to pension trust funds.....	73	6	204	1	1	6	270	931	1,492
Due to political subdivisions.....	-	-	-	-	730	3,941	23,340	6,424	34,435
Due to other governments.....	29	2	79	-	-	3	70	551	734
Unearned revenue.....	-	1,172	-	-	-	-	24,646	56,238	82,056
<b>TOTAL LIABILITIES.....</b>	<b>2,086</b>	<b>1,304</b>	<b>3,247</b>	<b>68,684</b>	<b>4,559</b>	<b>60,825</b>	<b>105,165</b>	<b>200,244</b>	<b>446,114</b>
<b>Deferred Inflows:</b>									
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>168,096</b>	<b>-</b>	<b>1</b>	<b>13,040</b>	<b>181,139</b>
<b>Fund balances:</b>									
Restricted.....	24,477	2,474	103,305	776,452	-	215,885	673,270	858,024	2,653,887
Committed.....	-	-	-	-	345,054	-	-	28,131	373,185
<b>TOTAL FUND BALANCES.....</b>	<b>24,477</b>	<b>2,474</b>	<b>103,305</b>	<b>776,452</b>	<b>345,054</b>	<b>215,885</b>	<b>673,270</b>	<b>886,155</b>	<b>3,027,072</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 26,564</b>	<b>\$ 3,779</b>	<b>\$ 106,552</b>	<b>\$ 845,136</b>	<b>\$ 517,709</b>	<b>\$ 276,710</b>	<b>\$ 778,436</b>	<b>\$ 1,099,439</b>	<b>\$ 3,654,325</b>

**Commonwealth of Pennsylvania**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds**

**Nonmajor Governmental Funds**

**Special Revenue Funds**

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

(Amounts in thousands)	Budgeted Funds								
	Banking	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust	Gaming	Other	Total
<b>REVENUES:</b>									
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 424,270	\$1,311,583	\$ 70,633	\$ 1,806,486
Licenses and fees.....	7,045	2,440	20	39,068	-	43,281	74,155	635,022	801,031
Intergovernmental.....	-	-	-	-	155,154	250,000	9,268	157,273	571,695
Charges for sales and services.....	13,665	-	59,711	-	15,169	-	-	214,202	302,747
Investment income.....	1,264	8	217	79,053	14,408	9,540	1,048	46,816	152,354
Other.....	2	-	100	1,392	233,292	-	5,242	17,544	257,572
<b>TOTAL REVENUES</b> .....	<b>21,976</b>	<b>2,448</b>	<b>60,048</b>	<b>119,513</b>	<b>418,023</b>	<b>727,091</b>	<b>1,401,296</b>	<b>1,141,490</b>	<b>3,891,885</b>
<b>EXPENDITURES:</b>									
Current:									
Direction and supportive services.....	16	-	3	-	-	-	400,678	489	401,186
Protection of persons and property.....	18,598	2,505	-	35,512	-	-	12,002	473,615	542,232
Health and human services.....	-	-	60,978	-	410,412	-	12,181	39,595	523,166
Public education.....	-	-	-	-	-	-	611,593	305	611,898
Recreation and cultural enrichment.....	-	-	-	-	-	-	9,896	168,889	178,785
Economic development.....	-	-	154	-	220	-	58,526	196,795	255,695
Transportation.....	-	-	-	-	-	804,172	-	8,025	812,197
Capital outlay.....	-	-	52	-	-	-	-	9,734	9,786
<b>TOTAL EXPENDITURES</b> .....	<b>18,614</b>	<b>2,505</b>	<b>61,187</b>	<b>35,512</b>	<b>410,632</b>	<b>804,172</b>	<b>1,104,876</b>	<b>897,447</b>	<b>3,334,945</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b> .....									
	3,362	(57)	(1,139)	84,001	7,391	(77,081)	296,420	244,043	556,940
<b>OTHER FINANCING SOURCES (USES):</b>									
Transfers in.....	-	-	-	-	-	110,979	-	119,227	230,206
Transfers out.....	-	-	-	-	-	-	(349,079)	(276,038)	(625,117)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....									
	-	-	-	-	-	110,979	(349,079)	(156,811)	(394,911)
<b>NET CHANGE IN FUND BALANCES</b> .....									
	3,362	(57)	(1,139)	84,001	7,391	33,898	(52,659)	87,232	162,029
<b>FUND BALANCES, JULY 1, 2013 (Restated)</b> ...	<b>21,115</b>	<b>2,531</b>	<b>104,444</b>	<b>692,451</b>	<b>337,663</b>	<b>181,987</b>	<b>725,929</b>	<b>798,923</b>	<b>2,865,043</b>
<b>FUND BALANCES, JUNE 30, 2014</b> .....	<b>\$ 24,477</b>	<b>\$ 2,474</b>	<b>\$ 103,305</b>	<b>\$ 776,452</b>	<b>\$ 345,054</b>	<b>\$ 215,885</b>	<b>\$ 673,270</b>	<b>\$ 886,155</b>	<b>\$ 3,027,072</b>

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Nonmajor Funds  
 Special Revenue Fund-Banking  
 For the Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 17,069	\$ 178	\$ 17,247	\$ 1,419	\$ 18,666
Fines, penalties and interest.....	850	(450)	400	1,193	1,593
Investment income.....	350	-	350	(76)	274
<b>TOTAL REVENUES.....</b>	<b>18,269</b>	<b>(272)</b>	<b>17,997</b>	<b>2,536</b>	<b>20,533</b>
<b>EXPENDITURES:</b>					
State Programs.....	24,412	(815)	23,597	-	23,597
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(6,143)</b>	<b>543</b>	<b>(5,600)</b>	<b>2,536</b>	<b>(3,064)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	2,266	2,266	47	2,313
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(6,143)</b>	<b>2,809</b>	<b>(3,334)</b>	<b>2,583</b>	<b>(751)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
(BUDGETARY BASIS), JUNE 30, 2013.....	11,371	-	11,371	-	11,371
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
(BUDGETARY BASIS), JUNE 30, 2014.....	\$ 5,228	\$ 2,809	\$ 8,037	\$ 2,583	\$ 10,620

**Budgetary Compliance**

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Banking Department for the fiscal year ended June 30, 2014 and is available at the following web address:  
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2014.)

<b>Traceability to the " Status of Appropriations " Column Totals</b>			
<b>Total State Programs-Actual (Budgetary Basis) Expenditures</b>			
Appropriations (Column A).....	225	\$ 25,412	
plus Actual Augmentations (Column B).....	225	-	
less Lapses (Column C).....	225	1,815	
<b>TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures</b>		<b>\$ 23,597</b>	

**Special Funds**  
**"Status of**  
**Appropriations"**  
**Report Page**  
**Reference**

**Reconciliation of Budgetary to GAAP Basis Amounts**

The Commonwealth adopts a formal annual budget for the Banking Department Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

<b>Budgetary basis</b> — revenues and other sources under expenditures (from Actual column above).....	\$ (751)
<b>Adjustments:</b>	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(870)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	4,983
Net adjustments.....	4,113
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ 3,362</b>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants, and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 161 to 163 are an integral part of this schedule. -

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Nonmajor Funds  
 Special Revenue Fund-Milk Marketing  
 For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 2,537	\$ -	\$ 2,537	\$ (103)	\$ 2,434
Fines, penalties and interest.....	8	-	8	(2)	6
Investment income.....	9	(17)	(8)	16	8
<b>TOTAL REVENUES.....</b>	<b>2,554</b>	<b>(17)</b>	<b>2,537</b>	<b>(89)</b>	<b>2,448</b>
<b>EXPENDITURES:</b>					
State programs.....	2,840	-	2,840	-	2,840
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(286)</b>	<b>(17)</b>	<b>(303)</b>	<b>(89)</b>	<b>(392)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	473	473	-	473
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(286)</b>	<b>456</b>	<b>170</b>	<b>(89)</b>	<b>81</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
(BUDGETARY BASIS), JUNE 30, 2013.....	2,069	-	2,069	-	2,069
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
(BUDGETARY BASIS), JUNE 30, 2014.....	<u>\$ 1,783</u>	<u>\$ 456</u>	<u>\$ 2,239</u>	<u>\$ (89)</u>	<u>\$ 2,150</u>

A separately available report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Milk Marketing Fund for the fiscal year ended June 30, 2014 and is available at the following web address:  
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&PageID=473560&mode=2> (At the website, click on June 2014.)

Total Actual (Budgetary Basis) Expenditures of \$2,840 are traceable from page 229, Column A 'Appropriations' in the June 30, 2014 "Status of Appropriations" (Special Funds).

**Reconciliation of Budgetary to GAAP Basis Amounts**

The Commonwealth adopts a formal annual budget for the Milk Marketing Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

<b>Budgetary basis</b> — revenues and other sources over expenditures (from Actual column above).....	<u>\$ 81</u>
<b>Adjustments:</b>	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(473)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>335</u>
Net adjustments.....	<u>(138)</u>
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<u>\$ (57)</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants, and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants, and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 161 to 163 are an integral part of this schedule. -



Commonwealth of Pennsylvania

Budgetary Comparison Schedule

Budgeted Nonmajor Funds

Special Revenue Fund-Workers' Compensation Administration

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Taxes, net of refunds.....	\$ 80,000	\$ (15,908)	\$ 64,092	\$ (131)	\$ 63,961
Fines, penalties and interest.....	20	(15)	5	16	21
Investment income.....	400	(176)	224	(7)	217
Departmental services.....	194	-	194	-	194
Miscellaneous.....	348	366	714	(614)	100
<b>TOTAL REVENUES.....</b>	<b>80,962</b>	<b>(15,733)</b>	<b>65,229</b>	<b>(736)</b>	<b>64,493</b>
<b>EXPENDITURES:</b>					
State programs.....	76,028	435	76,463	-	76,463
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>4,934</b>	<b>(16,168)</b>	<b>(11,234)</b>	<b>(736)</b>	<b>(11,970)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	8,695	8,695	-	8,695
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>4,934</b>	<b>(7,473)</b>	<b>(2,539)</b>	<b>(736)</b>	<b>(3,275)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
(BUDGETARY BASIS), JUNE 30, 2013.....	91,105	-	91,105	-	91,105
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
(BUDGETARY BASIS), JUNE 30, 2014.....	<u>\$ 96,039</u>	<u>\$ (7,473)</u>	<u>\$ 88,566</u>	<u>\$ (736)</u>	<u>\$ 87,830</u>

Budgetary Compliance

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Workers' Compensation Administration Fund for the fiscal year ended June 30, 2014 and is available at the following web address:

<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2014.)

		<i>Special Funds "Status of Appropriations" Report Page Reference</i>
<b>Traceability to the " Status of Appropriations " Column Totals</b>		
<b><u>Total State Programs-Actual (Budgetary Basis) Expenditures</u></b>		
Appropriations (Column A).....	320	\$ 76,028
plus Actual Augmentations (Column B).....	320	435
less Lapses (Column C).....	320	-
<b>TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures</b>		<u>\$ 76,463</u>

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Workers' Compensation Administration Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

<b>Budgetary basis</b> — revenues and other sources under expenditures (from Actual column above).....	<u>\$ (3,275)</u>
<b>Adjustments:</b>	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(13,140)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>15,276</u>
Net adjustments.....	<u>2,136</u>
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<u>\$ (1,139)</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants, and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants, and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 161 to 163 are an integral part of this schedule. -

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Debt Service Funds

**DEBT SERVICE FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

Debt service funds account for the accumulation of resources, principally from transfers from other Funds, for the payment of general long-term debt principal and interest.

***Pennsylvania Infrastructure Investment Authority Redemption Fund*** — to account for the payment of principal and interest on bonds issued for loans to local water companies for the repair, construction, extension, and improvement of water supply systems, dams, port facilities, and water control systems. Funding consists of transfers from the **General Fund** and the Pennsylvania Infrastructure Investment Authority and investment income.

***Capital Debt Fund*** — to account for the payment of principal and interest related to general obligation bonds issued for capital projects authorized by Capital Budget Acts. Funding consists of transfers from the **General Fund** and the **Motor License Fund**, facility rental, and investment income.

***Growing Greener Bond Sinking Fund*** — payments for principal and interest for the Growing Greener Bond Fund are made from this Fund. Funding consists of transfers from the Environmental Stewardship Fund.

***Water and Sewer Systems Assistance Bond Sinking Fund*** — payments to redeem or pay interest on bonds issued for the Water and Sewer Systems Assistance Fund are made from this Fund. Funding is requested annually by the Governor and appropriated by the General Assembly.

***Water Supply and Wastewater Treatment Sinking Fund*** — monies in this fund are used to redeem or pay interest on bonds issued for the Water Supply and Wastewater Treatment Fund. Funding consists of monies appropriated annually by the General Assembly.

***Other*** — these funds account for the payment of principal and interest on bonds issued for loans to nursing homes and volunteer fire companies, compensation to Vietnam conflict veterans, finance of various environmental initiatives, and for water and wastewater infrastructure projects related to economic development. Funding consists of transfers from the **General Fund**, Environmental Stewardship Fund, and investment income. This other category is an aggregation of fourteen individual debt service funds.

There are a total of nineteen individual debt service funds; all are reported as nonmajor funds.

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**

Debt Service Funds

June 30, 2014

(Amounts in thousands)

	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Growing Greener Bond Sinking	Water and Sewer Systems Assistance Bond Sinking	Water Supply and Wastewater Treatment Sinking	Other	Total
<b>ASSETS</b>							
Temporary investments.....	\$ 2,199	\$ 145,873	\$ -	\$ -	\$ -	\$ 507	\$ 148,579
Receivables (net):							
Accounts.....	-	3,222	-	-	-	-	3,222
Investment income.....	-	2	-	-	-	-	2
Lease rentals.....	-	427	-	-	-	-	427
Due from other funds.....	-	1,054	-	-	-	-	1,054
Due from component units.....	424	-	-	500	-	-	924
<b>TOTAL ASSETS.....</b>	<u>\$ 2,623</u>	<u>\$ 150,578</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 507</u>	<u>\$ 154,208</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities.....	\$ -	\$ 141,338	\$ -	\$ -	\$ -	\$ -	\$ 141,338
Unearned revenue.....	-	3,649	-	-	-	-	3,649
<b>TOTAL LIABILITIES.....</b>	<u>-</u>	<u>144,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>144,987</u>
<b>Fund balances:</b>							
Committed.....	2,623	5,591	-	500	-	507	9,221
<b>TOTAL FUND BALANCES.....</b>	<u>2,623</u>	<u>5,591</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>507</u>	<u>9,221</u>
<b>TOTAL LIABILITIES AND FUND BALANCES....</b>	<u>\$ 2,623</u>	<u>\$ 150,578</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 507</u>	<u>\$ 154,208</u>

**Commonwealth of Pennsylvania**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**

**Nonmajor Governmental Funds**

**Debt Service Funds**

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	<b>Pennsylvania Infrastructure Investment Authority Redemption</b>	<b>Capital Debt</b>	<b>Growing Greener Bond Sinking</b>	<b>Water and Sewer Systems Assistance Bond Sinking</b>	<b>Water Supply and Wastewater Treatment Sinking</b>	<b>Other</b>	<b>Total</b>
<b>REVENUES:</b>							
Intergovernmental.....	\$ -	\$ 26,668	\$ -	\$ 500	\$ -	\$ 1	\$ 27,169
Investment income.....	3	11	-	-	-	10	24
Other.....	11,906	-	-	-	-	-	11,906
<b>TOTAL REVENUES .....</b>	<b>11,909</b>	<b>26,679</b>	<b>-</b>	<b>500</b>	<b>-</b>	<b>11</b>	<b>39,099</b>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	-	232	-	-	-	-	232
Debt service:							
Principal retirement.....	8,660	706,085	21,515	7,790	7,580	475	752,105
Interest and fiscal charges.....	9,332	479,256	21,221	17,202	7,235	338	534,584
<b>TOTAL EXPENDITURES .....</b>	<b>17,992</b>	<b>1,185,573</b>	<b>42,736</b>	<b>24,992</b>	<b>14,815</b>	<b>813</b>	<b>1,286,921</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES .....</b>	<b>(6,083)</b>	<b>(1,158,894)</b>	<b>(42,736)</b>	<b>(24,492)</b>	<b>(14,815)</b>	<b>(802)</b>	<b>(1,247,822)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Refunding bonds issued.....	-	289,770	-	-	-	-	289,770
Premium on refunding bonds.....	-	47,825	-	-	-	-	47,825
Transfers in.....	7,224	1,129,031	42,735	24,992	14,815	506	1,219,303
Payment to refunded bond escrow agent.....	-	(336,896)	-	-	-	-	(336,896)
<b>NET OTHER FINANCING NET OTHER FINANCING SOURCES.....</b>	<b>7,224</b>	<b>1,129,730</b>	<b>42,735</b>	<b>24,992</b>	<b>14,815</b>	<b>506</b>	<b>1,220,002</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>1,141</b>	<b>(29,164)</b>	<b>(1)</b>	<b>500</b>	<b>-</b>	<b>(296)</b>	<b>(27,820)</b>
<b>FUND BALANCES, JULY 1, 2013.....</b>	<b>1,482</b>	<b>34,755</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>803</b>	<b>37,041</b>
<b>FUND BALANCES, JUNE 30, 2014.....</b>	<b>\$ 2,623</b>	<b>\$ 5,591</b>	<b>\$ -</b>	<b>\$ 500</b>	<b>\$ -</b>	<b>\$ 507</b>	<b>\$ 9,221</b>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Capital Projects Funds

**CAPITAL PROJECTS FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions or other public organizations.

**Capital Facilities Fund** — to account for general obligation bond proceeds used to fund capital projects specifically itemized and authorized by Capital Budget Acts. Projects fall within six broad categories: public improvements, public improvement-original furniture and equipment, transportation assistance, redevelopment assistance, flood control and highway projects. Such projects include those of the primary government and also grants to non-primary government recipients.

**Keystone Recreation, Park and Conservation Fund** — to account for bond proceeds and a percentage of the state realty transfer tax. The amounts are used to acquire, improve and expand Commonwealth and community parks, recreation facilities, historic sites, zoos, public libraries, nature preserves and wildlife habitats and other recreational areas and facilities.

**Growing Greener Bond Fund** — to account for the proceeds of bonds issued. The money will be used to finance various environmental projects such as watershed protection, mine drainage remediation, advanced energy, flood protection and various capital improvement projects including county environmental initiatives.

**Water Supply and Wastewater Treatment Fund** — funding for this program is generated from the \$250 million bond issue approved by the electorate in April of 2004. Funds are allocated to the **Commonwealth Financing Authority** and the Pennsylvania Infrastructure Investment Authority (PENNVEST) to be used for grants and loans for new and existing water supply and wastewater system projects in the Commonwealth.

**Land and Water Development Fund** — to account for the proceeds of bonds issued for pollution remediation; grants to local governments for sewage treatment facilities; the development of public outdoor recreation areas; and, acquisition and development of park and recreation lands and related studies to determine such needs.

**Public Transportation Assistance Fund** — This fund was established to help provide for the capital asset maintenance and certain other transportation needs of the Commonwealth's transit entities. Act 44 of 2007 revised the purpose of this fund by transferring programs to the new Public Transportation Trust Fund.

There are a total of six individual capital projects funds; all are reported as nonmajor funds.



**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**

Capital Project Funds

June 30, 2014

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Growing Greener Bond	Water Supply and Wastewater Treatment	Land and Water Development	Public Transportation Assistance	Total
<b>ASSETS</b>							
Cash.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 4
Temporary investments.....	600,309	23,953	34,095	32,201	97	7,682	698,337
Long-term investments.....	-	95,240	-	-	-	-	95,240
Receivables (net):							
Taxes.....	-	-	-	-	-	25,700	25,700
Investment income.....	83	3	4	3	-	2	95
Notes and loans.....	-	-	-	1	-	-	1
Due from other funds.....	1,981	6,824	-	-	-	8,805	17,610
Due from component units.....	640	-	-	-	-	-	640
Due from political subdivisions.....	670	-	-	-	-	-	670
<b>TOTAL ASSETS.....</b>	<b>\$ 603,683</b>	<b>\$ 126,020</b>	<b>\$ 34,099</b>	<b>\$ 32,205</b>	<b>\$ 97</b>	<b>\$ 42,193</b>	<b>\$ 838,297</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities.....	\$ 206,408	\$ 3,904	\$ 1,143	\$ 65	\$ -	\$ -	\$ 211,520
Securities lending obligations.....	-	2,716	-	-	-	-	2,716
Due to other funds.....	32,774	655	-	-	-	897	34,326
Due to component units.....	122,000	-	-	-	-	-	122,000
Due to pension trust funds.....	-	3	-	-	-	-	3
Due to political subdivisions.....	35,503	1,221	249	272	-	6,784	44,029
Due to other governments.....	32	1	-	-	-	-	33
<b>TOTAL LIABILITIES.....</b>	<b>396,717</b>	<b>8,500</b>	<b>1,392</b>	<b>337</b>	<b>-</b>	<b>7,681</b>	<b>414,627</b>
<b>Fund balances:</b>							
Committed.....	206,966	117,520	32,707	31,868	97	34,512	423,670
<b>TOTAL FUND BALANCES.....</b>	<b>206,966</b>	<b>117,520</b>	<b>32,707</b>	<b>31,868</b>	<b>97</b>	<b>34,512</b>	<b>423,670</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 603,683</b>	<b>\$ 126,020</b>	<b>\$ 34,099</b>	<b>\$ 32,205</b>	<b>\$ 97</b>	<b>\$ 42,193</b>	<b>\$ 838,297</b>

**Commonwealth of Pennsylvania**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**

**Nonmajor Governmental Funds**

**Capital Projects Funds**

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Growing Greener Bond	Water Supply and Wastewater Treatment	Land and Water Development	Public Transportation Assistance	Total
<b>REVENUES:</b>							
Taxes.....	\$ -	\$ 65,741	\$ -	\$ -	\$ -	\$ 196,940	\$ 262,681
Charges for sales and services.....	4,625	-	-	-	-	-	4,625
Investment income.....	776	9,308	79	57	-	35	10,255
Interest on notes and loans.....	-	-	-	808	-	-	808
<b>TOTAL REVENUES</b> .....	<u>5,401</u>	<u>75,049</u>	<u>79</u>	<u>865</u>	<u>-</u>	<u>196,975</u>	<u>278,369</u>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	206,677	-	3	33	-	-	206,713
Protection of persons and property.....	2,119	-	4,431	-	127	-	6,677
Public education.....	-	13,590	601	-	-	-	14,191
Recreation and cultural enrichment.....	1,513	40,604	721	-	-	-	42,838
Economic development.....	280,419	-	972	3,935	-	-	285,326
Transportation.....	201,508	-	-	-	-	174,638	376,146
Capital outlay.....	490,052	3,205	1,223	-	-	-	494,480
Debt service:							
Interest and fiscal charges.....	3,980	-	-	142	-	-	4,122
<b>TOTAL EXPENDITURES</b> .....	<u>1,186,268</u>	<u>57,399</u>	<u>7,951</u>	<u>4,110</u>	<u>127</u>	<u>174,638</u>	<u>1,430,493</u>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<u>(1,180,867)</u>	<u>17,650</u>	<u>(7,872)</u>	<u>(3,245)</u>	<u>(127)</u>	<u>22,337</u>	<u>(1,152,124)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Bonds issued.....	1,265,000	-	-	30,000	-	-	1,295,000
Refunding bonds issued.....	166	-	-	10	-	-	176
Premium on bonds issued.....	151,567	-	-	3,696	-	-	155,263
Transfers out.....	(53,616)	-	-	(85,100)	-	(18,023)	(156,739)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>1,363,117</u>	<u>-</u>	<u>-</u>	<u>(51,394)</u>	<u>-</u>	<u>(18,023)</u>	<u>1,293,700</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>182,250</u>	<u>17,650</u>	<u>(7,872)</u>	<u>(54,639)</u>	<u>(127)</u>	<u>4,314</u>	<u>141,576</u>
<b>FUND BALANCES JULY 1, 2013</b> .....	<u>24,716</u>	<u>99,870</u>	<u>40,579</u>	<u>86,507</u>	<u>224</u>	<u>30,198</u>	<u>282,094</u>
<b>FUND BALANCES JUNE 30, 2014</b> .....	<u>\$ 206,966</u>	<u>\$ 117,520</u>	<u>\$ 32,707</u>	<u>\$ 31,868</u>	<u>\$ 97</u>	<u>\$ 34,512</u>	<u>\$ 423,670</u>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Enterprise Funds

## ENTERPRISE FUNDS DESCRIPTION NONMAJOR FUNDS

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

**State Stores Fund** — to account for the general operations of the Pennsylvania Liquor Control Board. Expenses include all costs associated with the operation and administration of the liquor store system and enforcement of the Liquor Control Law.

**Small Business First Fund** — to account for and provide loans to eligible small businesses for capital development projects which will create or preserve employment opportunities and which will enhance business development in Pennsylvania. Sources of revenue and financing include loan principal and interest payments, transfers from the **General Fund**, Federal funds, and investment income.

**Volunteer Companies Loan Fund** — to account for and provide low-interest loans for acquisition and replacement of volunteer fire, ambulance and rescue company equipment and facilities.

**Machinery and Equipment Loan Fund** — to account for and provide low-interest loans to finance machinery and equipment purchases for eligible Pennsylvania businesses to facilitate their growth, competitiveness, and value-added capacity. Sources of revenue and financing include loan principal and interest payments, transfers from the **General Fund**, and investment income.

**Coal and Clay Mine Subsidence Insurance Fund** — to account for and provide insurance coverage to homeowners in mining areas against damages resulting from mine subsidence.

**Pennsylvania Infrastructure Bank Fund (PIB)** — to account for and provide low-interest loans to, or enter into leases with, qualified borrowers to finance the costs of construction and capital transportation projects within Pennsylvania. Acts 165 and 7A of 2004 expanded this program to include financing of rail freight infrastructure. Eligible borrowers include local governments, transportation authorities, economic development agencies, not-for-profit organizations, and private corporations. The interest rate on PIB loans is fixed at one-half the prime lending rate with terms up to 10 years.

**Rehabilitation Center Fund** — to account for the activities of the Hiram G. Andrews Rehabilitation Center (Center) which offers rehabilitative, educational, vocational, life management, and counseling services, resulting in employment and independence for persons with disabilities. The Center is funded from fees for services rendered.

**Other** — to account for enterprise operations including activities associated with low interest loans to manufacturers, financial and technical assistance to minority business enterprises, and loans and grants provided to attract industrial, manufacturing or research and development enterprises to the Commonwealth. This other category is an aggregation of six individual enterprise funds.

There are a total of eighteen individual enterprise funds. The following funds are reported as Major Funds in the basic financial statements: **Unemployment Compensation, State Workers' Insurance, State Lottery, Tuition Payment** and the **Commonwealth Financing Authority** (a blended component unit).

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## Commonwealth of Pennsylvania

## Combining Statement of Net Position-Nonmajor Proprietary Funds

Enterprise Funds

June 30, 2014

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>ASSETS</b>									
Current assets:									
Cash .....	\$ 30,965	\$ 128	\$ 18	\$ 56	\$ 74	\$ 43	\$ 83	\$ 7,435	\$ 38,802
Cash with fiscal agents.....	-	-	-	-	-	-	1	-	1
Temporary investments.....	210,266	49,312	44,094	60,673	23,927	3,137	11,362	14,017	416,788
Receivables (net):									
Accounts .....	819	-	214	-	-	-	85	-	1,118
Investment income.....	-	6	6	8	3	-	1	2	26
Interest on loans.....	-	-	109	-	-	498	-	-	607
Loans.....	-	7,460	14,820	10,522	-	8,270	-	778	41,850
Lease rental.....	-	-	-	-	-	-	-	772	772
Other .....	-	-	-	-	-	-	-	10	10
Due from other funds .....	257	-	-	-	-	-	2,049	12,372	14,678
Due from component units.....	-	-	-	-	-	-	10	-	10
Due from Federal government.....	-	-	-	-	-	-	44	147	191
Due from other governments .....	-	-	-	-	-	-	-	36	36
Inventory.....	206,787	-	-	-	-	-	-	4	206,791
Prepaid expenses.....	3,299	-	-	-	-	-	-	600	3,899
Other assets.....	-	-	-	-	-	-	-	437	437
Total current assets .....	452,393	56,906	59,261	71,259	24,004	11,948	13,635	36,610	726,016
Noncurrent assets:									
Restricted cash.....	-	-	-	-	-	-	-	4,462	4,462
Long-term investments .....	-	63,493	38,096	69,842	88,890	62,989	-	-	323,310
Receivables:									
Loans.....	-	37,284	60,925	34,420	-	61,461	-	2,292	196,382
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	141,226	141,549
Construction in progress.....	-	-	-	-	-	-	-	30,227	30,227
Depreciable or amortizable capital assets:									
Land improvements.....	-	-	-	-	-	-	-	42,890	42,890
Buildings and building improvements.....	22,036	-	-	-	-	-	34,135	337,002	393,173
Machinery and equipment.....	73,189	-	-	-	158	-	2,677	41,058	117,082
Intangible assets.....	19,882	-	-	-	-	-	-	200	20,082
Less: accumulated depreciation and amortization...	(79,140)	-	-	-	(74)	-	(23,751)	(168,961)	(271,926)
Net depreciable or amortizable capital assets.....	35,967	-	-	-	84	-	13,061	252,189	301,301
Other assets.....	-	-	-	-	-	-	-	16,846	16,846
Total noncurrent assets .....	36,290	100,777	99,021	104,262	88,974	124,450	13,061	447,242	1,014,077
<b>TOTAL ASSETS.....</b>	<b>488,683</b>	<b>157,683</b>	<b>158,282</b>	<b>175,521</b>	<b>112,978</b>	<b>136,398</b>	<b>26,696</b>	<b>483,852</b>	<b>1,740,093</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>									
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES..</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,625</b>	<b>1,625</b>

## Commonwealth of Pennsylvania

## Combining Statement of Net Position-Nonmajor Proprietary Funds

Enterprise Funds

June 30, 2014

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>LIABILITIES</b>									
Current liabilities:									
Accounts payable and accrued liabilities.....	279,767	34	150	21	279	174	1,081	14,904	296,410
Securities lending obligations.....	-	1,811	1,087	1,992	2,535	1,797	-	-	9,222
Due to other funds.....	10,448	3	-	3	6	-	47	32	10,539
Due to pension trust funds.....	1,948	2	-	1	9	-	74	52	2,086
Due to component units.....	-	-	-	-	23	-	-	-	23
Due to political subdivisions.....	-	-	-	-	-	-	20	-	20
Due to other governments.....	814	1	-	1	4	-	29	148	997
Interest payable.....	-	-	-	-	-	-	-	454	454
Unearned revenue.....	-	-	94	-	2,384	63	-	1,229	3,770
Revenue bonds payable.....	-	-	-	-	-	-	-	3,330	3,330
Self insurance liabilities.....	4,865	7	-	6	21	-	196	123	5,218
Compensated absences.....	4,793	-	-	-	68	-	260	241	5,362
Advances from other funds.....	-	3,000	-	-	-	-	-	-	3,000
Other liabilities.....	-	-	-	-	-	-	-	29	29
Total current liabilities.....	302,635	4,858	1,331	2,024	5,329	2,034	1,707	20,542	340,460
Non-current liabilities:									
Insurance loss liability.....	-	-	-	-	659	-	-	-	659
Revenue bond payable.....	-	-	-	-	-	-	-	25,090	25,090
Compensated absences.....	23,404	-	-	-	330	-	1,272	1,174	26,180
Self insurance liabilities.....	27,480	42	-	35	118	-	1,107	696	29,478
Other postemployment benefit obligations.....	67,406	104	-	121	478	-	3,961	2,391	74,461
Other liabilities.....	-	-	-	-	-	-	-	263	263
Total non-current liabilities.....	118,290	146	-	156	1,585	-	6,340	29,614	156,131
<b>TOTAL LIABILITIES.....</b>	<b>420,925</b>	<b>5,004</b>	<b>1,331</b>	<b>2,180</b>	<b>6,914</b>	<b>2,034</b>	<b>8,047</b>	<b>50,156</b>	<b>496,591</b>
<b>NET POSITION</b>									
Net investment in capital assets.....	36,290	-	-	-	84	-	13,061	413,693	463,128
Restricted for:									
Health-related programs.....	-	-	-	-	-	-	5,588	-	5,588
Transportation.....	-	-	-	-	-	134,364	-	-	134,364
Debt service.....	-	-	-	-	-	-	-	4,199	4,199
Economic development.....	-	152,679	-	173,341	-	-	-	7,801	333,821
Emergency support.....	-	-	156,951	-	-	-	-	-	156,951
Other purposes.....	31,468	-	-	-	105,980	-	-	9,628	147,076
<b>TOTAL NET POSITION.....</b>	<b>\$ 67,758</b>	<b>\$ 152,679</b>	<b>\$ 156,951</b>	<b>\$ 173,341</b>	<b>\$ 106,064</b>	<b>\$ 134,364</b>	<b>\$ 18,649</b>	<b>\$ 435,321</b>	<b>\$ 1,245,127</b>

**Commonwealth of Pennsylvania**

**Combining Statement of Revenues, Expenses, and Changes in Net Position-Nonmajor Proprietary Funds**

Enterprise Funds

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>OPERATING REVENUES:</b>									
Sales and services.....	\$ 1,803,367	\$ -	\$ -	\$ 4	\$ 5,091	\$ 3	\$ 155	\$ 12,209	\$ 1,820,829
Interest on loans.....	-	1,824	1,572	1,396	-	1,169	-	65	6,026
Other.....	-	7	-	11	-	-	-	159	177
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>1,803,367</b>	<b>1,831</b>	<b>1,572</b>	<b>1,411</b>	<b>5,091</b>	<b>1,172</b>	<b>155</b>	<b>12,433</b>	<b>1,827,032</b>
Provision for uncollectible accounts.....	-	2,178	(130)	(3,627)	-	(1)	-	16	(1,564)
<b>NET OPERATING REVENUES.....</b>	<b>1,803,367</b>	<b>4,009</b>	<b>1,442</b>	<b>(2,216)</b>	<b>5,091</b>	<b>1,171</b>	<b>155</b>	<b>12,449</b>	<b>1,825,468</b>
<b>OPERATING EXPENSES:</b>									
Cost of sales and services.....	1,669,612	984	126	681	4,351	-	326	10,258	1,686,338
Depreciation.....	13,486	-	-	-	31	-	1,819	17,145	32,481
Other.....	-	-	-	-	-	-	-	4,606	4,606
<b>TOTAL OPERATING EXPENSES .....</b>	<b>1,683,098</b>	<b>984</b>	<b>126</b>	<b>681</b>	<b>4,382</b>	<b>-</b>	<b>2,145</b>	<b>32,009</b>	<b>1,723,425</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>120,269</b>	<b>3,025</b>	<b>1,316</b>	<b>(2,897)</b>	<b>709</b>	<b>1,171</b>	<b>(1,990)</b>	<b>(19,560)</b>	<b>102,043</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income.....	420	3,288	3,782	4,271	8,708	6,207	18	33	26,727
Grants and other revenues.....	-	18	-	-	-	-	1,380	492	1,890
Other expenses.....	(87)	-	-	-	-	-	-	(5,321)	(5,408)
<b>TOTAL NONOPERATING REVENUES (EXPENSES).....</b>	<b>333</b>	<b>3,306</b>	<b>3,782</b>	<b>4,271</b>	<b>8,708</b>	<b>6,207</b>	<b>1,398</b>	<b>(4,796)</b>	<b>23,209</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS.....</b>	<b>120,602</b>	<b>6,331</b>	<b>5,098</b>	<b>1,374</b>	<b>9,417</b>	<b>7,378</b>	<b>(592)</b>	<b>(24,356)</b>	<b>125,252</b>
<b>TRANSFERS AND CONTRIBUTIONS:</b>									
Capital contributions.....	-	-	-	-	-	-	-	270	270
Transfers in.....	-	-	-	-	-	-	-	56,238	56,238
Transfers out.....	(82,474)	-	-	-	-	-	-	-	(82,474)
<b>TRANSFERS AND CONTRIBUTIONS, NET.....</b>	<b>(82,474)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,508</b>	<b>(25,966)</b>
<b>CHANGE IN NET POSITION.....</b>	<b>38,128</b>	<b>6,331</b>	<b>5,098</b>	<b>1,374</b>	<b>9,417</b>	<b>7,378</b>	<b>(592)</b>	<b>32,152</b>	<b>99,286</b>
<b>TOTAL NET POSITION, JULY 1, 2013 (Restated)...</b>	<b>29,630</b>	<b>146,348</b>	<b>151,853</b>	<b>171,967</b>	<b>96,647</b>	<b>126,986</b>	<b>19,241</b>	<b>403,169</b>	<b>1,145,841</b>
<b>TOTAL NET POSITION, JUNE 30, 2014.....</b>	<b>\$ 67,758</b>	<b>\$ 152,679</b>	<b>\$ 156,951</b>	<b>\$ 173,341</b>	<b>\$ 106,064</b>	<b>\$ 134,364</b>	<b>\$ 18,649</b>	<b>\$ 435,321</b>	<b>\$ 1,245,127</b>



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**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>									
Receipts from customers.....	\$ 1,803,350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,258	\$ 12,560	\$ 1,817,168
Receipts from borrowers for fees and loan repayments.....	-	14,726	16,276	11,808	-	15,336	-	756	58,902
Receipt of premiums.....	-	-	-	-	5,217	-	-	-	5,217
Payments to claimants.....	-	-	-	-	(1,336)	-	-	-	(1,336)
Payments to borrowers.....	-	(7,615)	(7,389)	(15,822)	-	(19,963)	-	(844)	(51,633)
Payments for vendors, employees and other costs.....	(1,654,520)	(936)	(250)	(665)	(2,463)	-	-	(10,095)	(1,668,929)
Other receipts.....	-	7	-	15	-	3	-	161	186
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>148,830</b>	<b>6,182</b>	<b>8,637</b>	<b>(4,664)</b>	<b>1,418</b>	<b>(4,624)</b>	<b>1,258</b>	<b>2,538</b>	<b>159,575</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>									
Transfers in.....	-	-	-	-	-	-	-	2,622	2,622
Transfers out.....	(82,567)	-	-	-	-	-	-	-	(82,567)
Grants and other revenues.....	-	18	-	-	-	-	1,384	692	2,094
Other payments for non-capital financing uses.....	-	-	-	-	-	-	-	(3,845)	(3,845)
<b>NET CASH PROVIDED BY (USED FOR)</b>									
<b>NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(82,567)</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,384</b>	<b>(531)</b>	<b>(81,696)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED</b>									
<b>FINANCING ACTIVITIES:</b>									
Acquisition and construction of capital assets.....	(4,411)	-	-	-	(2)	-	(95)	(34,217)	(38,725)
Disposition of capital assets.....	-	-	-	-	-	-	-	4	4
Principal payments on other capital debt.....	-	-	-	-	-	-	-	(3,380)	(3,380)
Interest payments on other capital debt.....	-	-	-	-	-	-	-	(1,454)	(1,454)
Transfers in.....	-	-	-	-	-	-	-	47,856	47,856
Capital contributions.....	-	-	-	-	-	-	-	300	300
Other receipts for capital and related financing activities.....	-	-	-	-	-	-	-	42	42
Other payments for capital and related financing uses.....	-	-	-	-	-	-	-	(6,606)	(6,606)
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND</b>									
<b>RELATED FINANCING ACTIVITIES.....</b>	<b>(4,411)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>(95)</b>	<b>2,545</b>	<b>(1,963)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>									
Purchase of investments.....	(1,400,225)	(14,023)	(15,189)	(12,332)	(6,332)	(16,751)	(20,695)	(3,336)	(1,488,883)
Sales and maturities of investments.....	1,350,511	6,442	5,758	15,371	3,123	19,761	18,111	3,677	1,422,754
Investment income.....	420	1,324	812	1,494	1,779	1,332	18	33	7,212
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>(49,294)</b>	<b>(6,257)</b>	<b>(8,619)</b>	<b>4,533</b>	<b>(1,430)</b>	<b>4,342</b>	<b>(2,566)</b>	<b>374</b>	<b>(58,917)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>12,558</b>	<b>(57)</b>	<b>18</b>	<b>(131)</b>	<b>(14)</b>	<b>(282)</b>	<b>(19)</b>	<b>4,926</b>	<b>16,999</b>
<b>CASH AT JULY 1, 2013.....</b>	<b>18,407</b>	<b>185</b>	<b>-</b>	<b>187</b>	<b>88</b>	<b>325</b>	<b>103</b>	<b>6,971</b>	<b>26,266</b>
<b>CASH AT JUNE 30, 2014 (including \$4,462 included in restricted assets).....</b>	<b>\$ 30,965</b>	<b>\$ 128</b>	<b>\$ 18</b>	<b>\$ 56</b>	<b>\$ 74</b>	<b>\$ 43</b>	<b>\$ 84</b>	<b>\$ 11,897</b>	<b>\$ 43,265</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>									
Operating income (loss).....	\$ 120,269	\$ 3,025	\$ 1,316	\$ (2,897)	\$ 709	\$ 1,171	\$ (1,990)	\$ (19,560)	\$ 102,043
Depreciation and amortization of capital assets.....	13,486	-	-	-	31	-	1,819	17,145	32,481
Amortization of other assets.....	-	-	-	-	-	-	-	4,606	4,606
Provision for uncollectible accounts.....	-	(2,178)	130	3,627	-	1	-	(16)	1,564
Changes in assets, liabilities, deferred outflows and deferred inflows:									
Accounts receivable.....	193	-	(120)	-	-	(1)	(5)	5	72
Interest on loans receivable.....	-	-	126	-	-	-	-	-	126
Loans receivable.....	-	5,287	7,378	(5,410)	-	(6,023)	-	(153)	1,079
Lease rental receivable.....	-	-	-	-	-	-	-	343	343
Other receivables.....	-	-	-	-	-	-	-	1	1
Due from other funds.....	(210)	-	-	-	-	-	1,005	2	797
Due from component units.....	-	-	-	-	-	-	17	-	17
Due from other governments.....	-	-	-	-	-	-	-	(9)	(9)
Inventory.....	(8,161)	-	-	-	-	-	-	-	(8,161)
Prepaid expenses.....	(517)	-	-	-	-	-	-	25	(492)
Other current and noncurrent assets.....	-	-	-	-	-	-	-	(437)	(437)
Accounts payable and accrued liabilities.....	10,462	16	(253)	(1)	134	174	43	396	10,971
Due to other funds.....	3,732	3	-	2	-	-	(160)	6	3,583
Due to pension trust funds.....	516	1	-	-	4	-	23	9	553
Due to component units.....	-	-	-	-	(26)	-	(3)	-	(29)
Due to political subdivisions.....	-	-	-	-	-	-	(18)	(3)	(21)
Due to other governments.....	49	-	-	-	1	-	2	-	52
Unearned revenue.....	-	-	60	-	126	54	-	2	242
Self insurance liabilities.....	(264)	13	-	(3)	(39)	-	31	(176)	(438)
Compensated absences.....	346	-	-	-	28	-	10	37	421
Insurance loss liability.....	-	-	-	-	394	-	-	-	394
Other postemployment benefit obligations.....	8,929	15	-	18	56	-	484	313	9,815
Other current and noncurrent liabilities.....	-	-	-	-	-	-	-	2	2
<b>Total Adjustments.....</b>	<b>28,561</b>	<b>3,157</b>	<b>7,321</b>	<b>(1,767)</b>	<b>709</b>	<b>(5,795)</b>	<b>3,248</b>	<b>22,098</b>	<b>57,532</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 148,830</b>	<b>\$ 6,182</b>	<b>\$ 8,637</b>	<b>\$ (4,664)</b>	<b>\$ 1,418</b>	<b>\$ (4,624)</b>	<b>\$ 1,258</b>	<b>\$ 2,538</b>	<b>\$ 159,575</b>
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 1,964	\$ 2,969	\$ 2,779	\$ 6,929	\$ 4,876	\$ -	\$ -	\$ 19,517
Increase in investments from changes in securities lending obligations.....	-	251	151	276	351	237	-	-	1,266

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Internal Service Funds

## INTERNAL SERVICE FUNDS DESCRIPTION

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

**Purchasing Fund** — to account for the purchase of materials, supplies, motor vehicles, and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards or commissions. This fund is also used to account for all Commonwealth telecommunication activities, which are accounted for by the Governor's Executive Offices. Revenue is derived from reimbursements from Commonwealth agencies that use Fund services or products.

**Manufacturing Fund** — to account for the manufacture and sale of goods and services by inmates in the correctional institutions to the Department of Corrections, other government agencies, and government-aided organizations.

There are a total of two individual internal service funds.

**Commonwealth of Pennsylvania**

**Combining Statement of Net Position-Nonmajor Proprietary Funds**

Internal Service Funds

June 30, 2014

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash.....	\$ 2,611	\$ 494	\$ 3,105
Temporary investments.....	21,279	9,786	31,065
Receivables (net):			
Accounts.....	7	1,536	1,543
Investment income.....	3	1	4
Due from other funds.....	22,983	2,467	25,450
Due from pension trust funds.....	1,060	4,459	5,519
Due from component units.....	95	1	96
Due from other governments.....	-	16	16
Inventory.....	32	15,305	15,337
Other assets.....	-	45	45
Total current assets.....	<u>48,070</u>	<u>34,110</u>	<u>82,180</u>
Noncurrent assets:			
Long-term investments .....	-	19,048	19,048
Depreciable capital assets:			
Land improvements.....	192	-	192
Buildings and building improvements.....	-	6,204	6,204
Machinery and equipment.....	66,331	30,843	97,174
Less: accumulated depreciation.....	(36,692)	(18,037)	(54,729)
Total noncurrent assets.....	<u>29,831</u>	<u>38,058</u>	<u>67,889</u>
<b>TOTAL ASSETS.....</b>	<b><u>77,901</u></b>	<b><u>72,168</u></b>	<b><u>150,069</u></b>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities.....	36,762	8,194	44,956
Securities lending obligations.....	-	543	543
Due to other funds.....	4,412	140	4,552
Due to pension trust funds.....	28	67	95
Due to component units.....	2	-	2
Due to other governments.....	9	23	32
Self insurance liabilities.....	109	309	418
Compensated absences.....	127	329	456
Total current liabilities.....	<u>41,449</u>	<u>9,605</u>	<u>51,054</u>
Non-current liabilities:			
Installment purchase.....	515	-	515
Compensated absences.....	621	1,606	2,227
Self insurance liabilities.....	616	1,742	2,358
Other postemployment benefit obligations.....	1,962	4,651	6,613
Total non-current liabilities.....	<u>3,714</u>	<u>7,999</u>	<u>11,713</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>45,163</u></b>	<b><u>17,604</u></b>	<b><u>62,767</u></b>
<b><u>NET POSITION</u></b>			
Net investment in capital assets.....	29,316	19,010	48,326
Restricted for:			
Correctional industries and procurement.....	3,422	35,554	38,976
<b>TOTAL NET POSITION.....</b>	<b><u>\$ 32,738</u></b>	<b><u>\$ 54,564</u></b>	<b><u>\$ 87,302</u></b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Revenues, Expenses, and Changes in**  
**Net Position-Nonmajor Proprietary Funds**

Internal Service Funds

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and services.....	\$ 20,090	\$ 68,792	\$ 88,882
<b>OPERATING EXPENSES:</b>			
Cost of sales and services.....	18,077	67,170	85,247
Depreciation.....	8,493	1,849	10,342
<b>TOTAL OPERATING EXPENSES</b> .....	<u>26,570</u>	<u>69,019</u>	<u>95,589</u>
<b>OPERATING LOSS</b> .....	<u>(6,480)</u>	<u>(227)</u>	<u>(6,707)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	59	1,887	1,946
Other expenses.....	(1,284)	-	(1,284)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET....</b>	<u>(1,225)</u>	<u>1,887</u>	<u>662</u>
<b>INCOME (LOSS) BEFORE</b>			
<b>TRANSFERS</b> .....	<u>(7,705)</u>	<u>1,660</u>	<u>(6,045)</u>
<b>CHANGE IN NET POSITION</b> .....	<u>(7,705)</u>	<u>1,660</u>	<u>(6,045)</u>
<b>TOTAL NET POSITION, JULY 1, 2013</b> .....	<u>40,443</u>	<u>52,904</u>	<u>93,347</u>
<b>TOTAL NET POSITION, JUNE 30, 2014</b> .....	<u>\$ 32,738</u>	<u>\$ 54,564</u>	<u>\$ 87,302</u>



**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers.....	\$ 24,805	\$ 67,078	\$ 91,883
Payments for vendors, employees and other costs.....	(18,569)	(62,317)	(80,886)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>6,236</b>	<b>4,761</b>	<b>10,997</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets.....	(15,200)	(2,755)	(17,955)
Capital lease/installment purchase payments.....	(100)	-	(100)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES..</b>	<b>(15,300)</b>	<b>(2,755)</b>	<b>(18,055)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments.....	(386,175)	(52,644)	(438,819)
Sales and maturities of investments.....	386,882	46,856	433,738
Investment income.....	60	401	461
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>767</b>	<b>(5,387)</b>	<b>(4,620)</b>
<b>NET DECREASE IN CASH.....</b>	<b>(8,297)</b>	<b>(3,381)</b>	<b>(11,678)</b>
<b>CASH AT JULY 1, 2013.....</b>	<b>10,908</b>	<b>3,875</b>	<b>14,783</b>
<b>CASH AT JUNE 30, 2014.....</b>	<b>\$ 2,611</b>	<b>\$ 494</b>	<b>\$ 3,105</b>

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

Operating loss.....	\$ (6,480)	\$ (227)	\$ (6,707)
Depreciation and amortization of capital assets.....	8,493	1,849	10,342
Changes in assets, liabilities, deferred outflows and deferred inflows:			
Accounts receivable.....	(4)	505	501
Due from other funds.....	(6,835)	(974)	(7,809)
Due from pension trust funds.....	373	(1,215)	(842)
Due from component units.....	127	(1)	126
Due from political subdivisions.....	67	-	67
Inventory.....	18	2,236	2,254
Other current and noncurrent assets.....	-	(29)	(29)
Accounts payable and accrued liabilities.....	10,801	2,056	12,857
Due to other funds.....	(717)	(219)	(936)
Due to pension trust funds.....	7	26	33
Due to other governments.....	2	4	6
Self insurance liabilities.....	64	(9)	55
Compensated absences.....	81	48	129
Other postemployment benefit obligations.....	239	711	950
<b>Total Adjustments.....</b>	<b>12,716</b>	<b>4,988</b>	<b>17,704</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>\$ 6,236</b>	<b>\$ 4,761</b>	<b>\$ 10,997</b>
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 1,486	\$ 1,486
Increase in investments from changes in securities lending obligations.....	-	75	75
Capital asset disposals by scrapping.....	(1,284)	-	(1,284)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Pension (and Other Employee Benefit) Trust Funds

## PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS DESCRIPTION

Pension (and other employee benefit) trust funds account for assets that are required to be held in trust for the members and beneficiaries of defined benefit pension plans and other post employment benefit plans and are held by the Commonwealth in a trustee capacity.

### PENSION TRUST FUNDS

***State Employees' Retirement System (SERS)*** — a component unit organization reported as a Pension Trust Fund that administers and provides retirement, disability, and death benefits to members of the SERS and their beneficiaries.

***Deferred Compensation Fund*** — a pension trust fund administered by the SERS that collects and administers amounts contributed by Commonwealth employees who defer a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

***Public School Employees' Retirement System*** — a component unit organization that administers and provides pension benefits to public school employees in Pennsylvania.

### OTHER EMPLOYEE BENEFIT TRUST FUNDS

***Public School Employees' Retirement System-Postemployment Healthcare*** — a component unit organization reported as an employee benefit trust fund that administers and provides retirement, disability, and death benefits to members and their beneficiaries.

***Other Postemployment Benefits Investment Pool*** — an employee benefit trust fund that holds and invests amounts contributed by the Commonwealth of Pennsylvania for the sole purpose of providing post retirement healthcare benefits to retired employees and retired Pennsylvania State Police.

**Commonwealth of Pennsylvania**  
**Combining Statement of Fiduciary Net Position**  
Pension (and Other Employee Benefit) Trust Funds  
June 30, 2014

(Amounts in thousands)

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees' Retirement System	Deferred Compensation	Public School Employees' Retirement System		Other Postemployment Benefits	
	(December 31, 2013)	(December 31, 2013)	Pension	Postemployment Healthcare	Investment Pool	Total
<b>ASSETS</b>						
Cash.....	\$ -	\$ 6,850	\$ 200,955	\$ -	\$ -	\$ 207,805
Temporary investments.....	-	8,121	-	-	53,528	61,649
Long-term investments.....	-	74,492	-	-	174,060	248,552
Short-term funds.....	1,568,642	51,528	3,731,369	153,277	-	5,504,816
Corporate obligations.....	800,839	335,885	1,103,634	-	-	2,240,358
Collective trust funds.....	1,249,802	-	11,795,390	-	-	13,045,192
Real estate.....	3,113,115	-	7,230,493	-	-	10,343,608
Alternative.....	8,196,130	-	13,187,365	-	-	21,383,495
Securities lending collateral.....	211,893	10,001	596,936	-	-	818,830
Asset-backed securities.....	77,380	93,658	733,494	-	-	904,532
Commercial paper.....	-	-	9,982	-	-	9,982
Domestic equities.....	5,440,420	1,175,026	6,675,218	-	-	13,290,664
International equities.....	4,092,691	152,926	4,176,239	-	-	8,421,856
International private debt securities.....	-	-	309,766	-	-	309,766
International public debt securities.....	316,618	11,747	870,795	-	-	1,199,160
Mortgage-backed securities.....	530,793	398,763	1,006,240	-	-	1,935,796
Private placements.....	436,712	2,872	-	-	-	439,584
Repurchase agreements.....	-	-	-	98,225	-	98,225
U.S. Treasury obligations.....	1,726,087	373,041	1,342,099	-	-	3,441,227
U.S. government agency debt securities.....	128,108	74,920	303,565	-	-	506,593
Receivables (net):						
Investment income.....	54,881	12	238,202	-	-	293,095
Interest on notes and loans.....	-	-	-	-	502	502
Pension contributions.....	-	4,939	897,860	37,778	-	940,577
Investment sale proceeds.....	108,835	-	189,746	-	-	298,581
Other.....	3,114	176	454	22,202	-	25,946
Due from other funds.....	6,607	-	3,269	-	-	9,876
Due from pension trust funds.....	-	-	133	-	-	133
Due from component units.....	25,234	-	-	-	-	25,234
Due from political subdivisions.....	18,255	-	-	-	-	18,255
Due from other governments.....	-	-	-	16,386	-	16,386
Depreciable or amortizable capital assets:						
Machinery and equipment.....	-	-	12,595	-	-	12,595
Intangible assets.....	-	-	34,336	-	-	34,336
Less: accumulated depreciation and amortization..	-	-	(24,080)	-	-	(24,080)
Net depreciable or amortizable capital assets.....	-	-	22,851	-	-	22,851
<b>TOTAL ASSETS.....</b>	<b>28,106,156</b>	<b>2,774,957</b>	<b>54,626,055</b>	<b>327,868</b>	<b>228,090</b>	<b>86,063,126</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities.....	55,108	1,338	95,585	2,080	90	154,201
Investment purchases payable.....	437,853	-	421,138	-	-	858,991
Securities lending obligations.....	219,039	10,001	596,936	-	53,450	879,426
Due to other funds.....	-	4	485	-	-	489
Due to pension trust funds.....	-	107	175	-	-	282
Other liabilities.....	-	-	531,621	43,979	-	575,600
<b>TOTAL LIABILITIES.....</b>	<b>712,000</b>	<b>11,450</b>	<b>1,645,940</b>	<b>46,059</b>	<b>53,540</b>	<b>2,468,989</b>
<b>NET POSITION</b>						
Held in trust for:						
Pension benefits.....	27,394,156	-	52,980,115	-	-	80,374,271
Postemployment healthcare benefits.....	-	-	-	281,809	174,550	456,359
Employee salary deferrals.....	-	2,763,507	-	-	-	2,763,507
<b>TOTAL NET POSITION.....</b>	<b>\$ 27,394,156</b>	<b>\$ 2,763,507</b>	<b>\$ 52,980,115</b>	<b>\$ 281,809</b>	<b>\$ 174,550</b>	<b>\$ 83,594,137</b>

**Commonwealth of Pennsylvania**

**Combining Statement of Changes in Fiduciary Net Position**

Pension (and Other Employee Benefit) Trust Funds

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees' Retirement System	Deferred Compensation	Public School Employees' Retirement System		Other Postemployment Benefits Investment Pool	Total
	(December 31, 2013)	(December 31, 2013)	Pension	Postemployment Healthcare		
<b>ADDITIONS:</b>						
Pension contributions:						
Employer.....	\$ 794,911	\$ -	\$ 1,992,084	\$ 155,627	\$ 740,000	\$ 3,682,622
Employee.....	351,968	127,008	966,926	257,740	-	1,703,642
Transfer in from other plans.....	-	59,527	-	-	-	59,527
Total contributions.....	1,146,879	186,535	2,959,010	413,367	740,000	5,445,791
Investment income:						
Net appreciation/(depreciation) in fair value of investments.....	3,476,349	288,367	6,024,512	(651)	22,144	9,810,721
Interest income.....	120,815	30,032	235,211	1,007	8	387,073
Dividend income.....	204,214	-	284,808	-	4,000	493,022
Rental and other income.....	99,982	-	1,016,803	-	283	1,117,068
Total investment activity income.....	3,901,360	318,399	7,561,334	356	26,435	11,807,884
Less: investment expenses						
Investment activity expense.....	(181,042)	(3,413)	(482,141)	(95)	-	(666,691)
Net investment earnings.....	3,720,318	314,986	7,079,193	261	26,435	11,141,193
Securities lending activities:						
Income.....	4,326	8	19,859	-	-	24,193
Expenses.....	(606)	(1)	(1,291)	-	-	(1,898)
Total securities lending income.....	3,720	7	18,568	-	-	22,295
Total net investment income.....	3,724,038	314,993	7,097,761	261	26,435	11,163,488
<b>TOTAL ADDITIONS.....</b>	<b>4,870,917</b>	<b>501,528</b>	<b>10,056,771</b>	<b>413,628</b>	<b>766,435</b>	<b>16,609,279</b>
<b>DEDUCTIONS:</b>						
Benefit payments.....	2,833,676	67,739	6,028,795	363,950	740,000	10,034,160
Refunds of contributions.....	10,609	-	22,823	-	-	33,432
Transfers to other plans.....	-	98,682	1,887	-	-	100,569
Administrative expenses.....	21,811	225	38,712	28,005	7	88,760
Other expenses.....	-	3,088	-	-	448	3,536
<b>TOTAL DEDUCTIONS.....</b>	<b>2,866,096</b>	<b>169,734</b>	<b>6,092,217</b>	<b>391,955</b>	<b>740,455</b>	<b>10,260,457</b>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>						
Pension benefits.....	2,004,821	-	3,964,554	-	-	5,969,375
Postemployment healthcare benefits.....	-	-	-	21,673	25,980	47,653
Employee salary deferrals.....	-	331,794	-	-	-	331,794
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST</b>	<b>2,004,821</b>	<b>331,794</b>	<b>3,964,554</b>	<b>21,673</b>	<b>25,980</b>	<b>6,348,822</b>
<b>Net position, July 1, 2013.....</b>	<b>25,389,335</b>	<b>2,431,713</b>	<b>49,015,561</b>	<b>260,136</b>	<b>148,570</b>	<b>77,245,315</b>
<b>Net position, June 30, 2014.....</b>	<b>\$ 27,394,156</b>	<b>\$ 2,763,507</b>	<b>\$ 52,980,115</b>	<b>\$ 281,809</b>	<b>\$ 174,550</b>	<b>\$ 83,594,137</b>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Agency Funds

## AGENCY FUNDS DESCRIPTION

Agency funds account for assets held by the Commonwealth as an agent for individuals, private organizations, or other governmental units.

**Statutory Liquidator Fund** — to convert the remaining assets of insolvent insurance companies to cash for remittance to creditors, policyholders, and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders, and stockholders.

**Medical Care Availability and Reduction of Error Fund** — to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies.

**Allegheny Regional Asset District Sales and Use Tax Fund** — to collect an additional 1% sales tax remitted by Allegheny County business entities to the Department of Revenue, as established per Act 1993-77. On a monthly basis, the Treasury Department distributes the fund balance to qualified County entities in accordance with the requirements of the Act.

**Underground Storage Tank Indemnification Fund** — to collect assessments and remit claim payments to owners and operators of underground storage tanks who incur a liability for taking corrective action, for bodily injury or for property damage caused by a release from underground storage tanks.

**Municipal Pension Aid Fund** — to collect a two percent premium tax received from foreign (out-of-state) casualty insurance companies conducting business in the Commonwealth, which are remitted to municipalities to help defray municipal police and fire pension fund costs.

**Fire Insurance Tax Fund** — to collect a two-percent premium tax received from foreign (out-of-state) fire insurance companies conducting business in the Commonwealth, which are remitted to local governments. The municipalities must pay these monies to the relief, pension, or retirement fund of their recognized fire fighting organization.

**Agency Custodial Accounts** — to account for the assets of patients, residents, inmates and other non-Commonwealth funds for which the Commonwealth is the account custodian.

**Other** — to collect and administer funds from various sources for distribution to other state and local governments or the Federal Government. This other category is an aggregation of eight individual agency funds.

There are a total of fifteen individual agency funds.



**Commonwealth of Pennsylvania**  
**Combining Statement of Fiduciary Assets and Liabilities**  
 Agency Funds  
 June 30, 2014

(Amounts in thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Allegheny Regional Asset District Sales and Use Tax	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodial Accounts	Other	Total Agency Funds
<b>ASSETS</b>									
Cash.....	\$ -	\$ 723	\$ 137	\$ 2,104	\$ 35	\$ -	\$ 12,075	\$ 578	\$ 15,652
Cash with fiscal agents.....	31,164	-	-	-	-	-	-	-	31,164
Temporary investments.....	109,832	194,932	14,823	17,420	264,131	84,092	19,958	37,833	743,021
Long-term investments.....	2,886,033	63,493	-	179,857	-	-	-	-	3,129,383
Receivables (net):									
Taxes.....	-	-	14,241	-	-	-	-	17,878	32,119
Accounts.....	21,004	-	-	14,235	-	-	4,539	2	39,780
Investment income.....	12,453	25	1	742	35	-	-	3	13,259
Investment sale proceeds.....	4,067	-	-	297	-	-	-	-	4,364
Advances to other funds.....	-	-	-	67,500	-	-	-	-	67,500
Other assets.....	4,128,785	-	-	-	-	-	1,010	-	4,129,795
<b>TOTAL ASSETS.....</b>	<b>\$ 7,193,338</b>	<b>\$ 259,173</b>	<b>\$ 29,202</b>	<b>\$ 282,155</b>	<b>\$ 264,201</b>	<b>\$ 84,092</b>	<b>\$ 37,582</b>	<b>\$ 56,294</b>	<b>\$ 8,206,037</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities.....	\$ 25	\$ 143,010	\$ 865	\$ 9,819	\$ 10,089	\$ 1	\$ 11,559	\$ 4,253	\$ 179,621
Investment purchases payable.....	7,152	-	-	1,206	-	-	-	-	8,358
Securities lending obligations.....	1,995	1,814	-	7,129	-	-	-	-	10,938
Due to political subdivisions.....	-	-	28,337	38	254,112	84,091	-	47,898	414,476
Due to other governments.....	-	4	-	1	-	-	-	-	5
Compensated absence liability.....	-	371	-	54	-	-	-	-	425
Self insurance liabilities.....	-	293	-	65	-	-	-	-	358
Other postemployment benefit obligations.....	-	1,188	-	197	-	-	-	-	1,385
Other liabilities.....	7,184,166	112,493	-	263,646	-	-	26,023	4,143	7,590,471
<b>TOTAL LIABILITIES.....</b>	<b>\$ 7,193,338</b>	<b>\$ 259,173</b>	<b>\$ 29,202</b>	<b>\$ 282,155</b>	<b>\$ 264,201</b>	<b>\$ 84,092</b>	<b>\$ 37,582</b>	<b>\$ 56,294</b>	<b>\$ 8,206,037</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
Agency Funds  
For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>STATUTORY LIQUIDATOR FUND</b>				
<b><u>ASSETS</u></b>				
Cash with fiscal agents.....	\$ 39,330	\$ 1,320,591	\$ 1,328,757	\$ 31,164
Temporary investments.....	205,216	109,832	205,216	109,832
Long-term investments.....	2,961,196	2,453,383	2,528,546	2,886,033
Receivables (net):				
Accounts.....	23,801	21,929	24,726	21,004
Investment income.....	12,551	57,403	57,501	12,453
Investment sale proceeds.....	16,806	122,281	135,020	4,067
Other assets.....	4,249,696	484,662	605,573	4,128,785
<b>TOTAL ASSETS .....</b>	<b>\$ 7,508,596</b>	<b>\$ 4,570,081</b>	<b>\$ 4,885,339</b>	<b>\$ 7,193,338</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 25	\$ -	\$ 25
Investment purchases payable.....	4,811	194,007	191,666	7,152
Securities lending obligations.....	1,718	1,995	1,718	1,995
Other liabilities.....	7,502,067	7,184,166	7,502,067	7,184,166
<b>TOTAL LIABILITIES .....</b>	<b>\$ 7,508,596</b>	<b>\$ 7,380,193</b>	<b>\$ 7,695,451</b>	<b>\$ 7,193,338</b>
<b>MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 1,160	\$ 1,377,820	\$ 1,378,257	\$ 723
Temporary investments.....	161,299	293,931	260,298	194,932
Long-term investments.....	57,332	63,497	57,336	63,493
Receivables (net):				
Investment income.....	23	26	24	25
<b>TOTAL ASSETS .....</b>	<b>\$ 219,814</b>	<b>\$ 1,735,274</b>	<b>\$ 1,695,915</b>	<b>\$ 259,173</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 155,463	\$ 756,015	\$ 768,468	\$ 143,010
Securities lending obligations.....	1,562	1,814	1,562	1,814
Due to other funds.....	-	111	111	-
Due to political subdivisions.....	-	22	22	-
Due to other governments.....	4	12	12	4
Compensated absence liability.....	373	371	373	371
Self insurance liabilities.....	327	293	327	293
Other postemployment benefit obligations.....	1,058	1,203	1,073	1,188
Other liabilities.....	61,027	191,466	140,000	112,493
<b>TOTAL LIABILITIES .....</b>	<b>\$ 219,814</b>	<b>\$ 951,307</b>	<b>\$ 911,948</b>	<b>\$ 259,173</b>

(continued)

**Commonwealth of Pennsylvania**

**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>ALLEGHENY REGIONAL ASSET DISTRICT</b>				
<b>SALES AND USE TAX FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 93	\$ 939,887	\$ 939,843	\$ 137
Temporary investments.....	15,085	189,797	190,059	14,823
Receivables (net):				
Taxes.....	10,464	14,240	10,463	14,241
Investment income.....	1	1	1	1
<b>TOTAL ASSETS .....</b>	<b>\$ 25,643</b>	<b>\$ 1,143,925</b>	<b>\$ 1,140,366</b>	<b>\$ 29,202</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 170	\$ 865	\$ 170	\$ 865
Due to political subdivisions.....	25,473	12,912	10,048	28,337
<b>TOTAL LIABILITIES .....</b>	<b>\$ 25,643</b>	<b>\$ 13,777</b>	<b>\$ 10,218</b>	<b>\$ 29,202</b>
<b>UNDERGROUND STORAGE TANK</b>				
<b>INDEMNIFICATION FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ -	\$ 737,217	\$ 735,113	\$ 2,104
Temporary investments.....	33,524	126,553	142,657	17,420
Long-term investments.....	143,442	152,069	115,654	179,857
Receivables (net):				
Accounts.....	14,118	14,235	14,118	14,235
Investment income.....	745	742	745	742
Interest on notes and loans.....	-	1,488	1,488	-
Loans.....	-	1,186	1,186	-
Investment sale proceeds.....	522	297	522	297
Advances to other funds.....	67,500	-	-	67,500
<b>TOTAL ASSETS .....</b>	<b>\$ 259,851</b>	<b>\$ 1,033,787</b>	<b>\$ 1,011,483</b>	<b>\$ 282,155</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 13,078	\$ 166,175	\$ 169,434	\$ 9,819
Investment purchases payable.....	445	1,206	445	1,206
Securities lending obligations.....	14,368	7,129	14,368	7,129
Due to other funds.....	-	464	464	-
Due to political subdivisions.....	3	212	177	38
Due to other governments.....	1	29	29	1
Compensated absence liability.....	46	54	46	54
Self insurance liabilities.....	74	65	74	65
Other postemployment benefit obligations.....	171	200	174	197
Other liabilities.....	231,665	31,981	-	263,646
<b>TOTAL LIABILITIES .....</b>	<b>\$ 259,851</b>	<b>\$ 207,515</b>	<b>\$ 185,211</b>	<b>\$ 282,155</b>

(continued)

*Commonwealth of Pennsylvania*

**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>MUNICIPAL PENSION AID FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 34	\$ 2,866,484	\$ 2,866,483	\$ 35
Temporary investments.....	264,455	515,764	516,088	264,131
Receivables (net):				
Taxes.....	1,853	5,331	7,184	-
Investment income.....	40	35	40	35
Due from other funds.....	-	7,184	7,184	-
<b>TOTAL ASSETS</b> .....	<b>\$ 266,382</b>	<b>\$ 3,394,798</b>	<b>\$ 3,396,979</b>	<b>\$ 264,201</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 21,755	\$ 11,666	\$ 10,089
Due to other funds.....	-	21	21	-
Due to political subdivisions.....	266,382	289,676	301,946	254,112
<b>TOTAL LIABILITIES</b> .....	<b>\$ 266,382</b>	<b>\$ 311,452</b>	<b>\$ 313,633</b>	<b>\$ 264,201</b>
<b>FIRE INSURANCE TAX FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 34	\$ 838,548	\$ 838,582	\$ -
Temporary investments.....	88,064	155,549	159,521	84,092
Receivables (net):				
Taxes.....	844	2,428	3,272	-
Accounts.....	-	3,272	3,272	-
Due from other funds.....	-	844	844	-
<b>TOTAL ASSETS</b> .....	<b>\$ 88,942</b>	<b>\$ 1,000,641</b>	<b>\$ 1,005,491</b>	<b>\$ 84,092</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 1	\$ -	\$ 1
Due to political subdivisions.....	88,942	-	4,851	84,091
<b>TOTAL LIABILITIES</b> .....	<b>\$ 88,942</b>	<b>\$ 1</b>	<b>\$ 4,851</b>	<b>\$ 84,092</b>
<b>AGENCY CUSTODIAL ACCOUNTS</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 12,528	\$ 2,534	\$ 2,987	\$ 12,075
Temporary investments.....	20,769	168	979	19,958
Receivables (net):				
Accounts.....	6,753	58	2,272	4,539
Other assets.....	966	56	12	1,010
<b>TOTAL ASSETS</b> .....	<b>\$ 41,016</b>	<b>\$ 2,816</b>	<b>\$ 6,250</b>	<b>\$ 37,582</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 11,201	\$ 606	\$ 248	\$ 11,559
Other liabilities.....	29,815	2,127	5,919	26,023
<b>TOTAL LIABILITIES</b> .....	<b>\$ 41,016</b>	<b>\$ 2,733</b>	<b>\$ 6,167</b>	<b>\$ 37,582</b>

(continued)

**Commonwealth of Pennsylvania**

**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>OTHER FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 256	\$ 4,000,078	\$ 3,999,756	\$ 578
Temporary investments.....	38,122	706,987	707,276	37,833
Receivables (net):				
Taxes.....	16,646	17,879	16,647	17,878
Accounts.....	1	1	-	2
Investment income.....	3	4	4	3
<b>TOTAL ASSETS</b> .....	<u>\$ 55,028</u>	<u>\$ 4,724,949</u>	<u>\$ 4,723,683</u>	<u>\$ 56,294</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 285	\$ 74,142	\$ 70,174	\$ 4,253
Due to other funds.....	-	129	129	-
Due to political subdivisions.....	50,731	54,547	57,380	47,898
Other liabilities.....	4,012	131	-	4,143
<b>TOTAL LIABILITIES</b> .....	<u>\$ 55,028</u>	<u>\$ 128,949</u>	<u>\$ 127,683</u>	<u>\$ 56,294</u>
<b>TOTAL — AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 14,105	\$ 10,762,568	\$ 10,761,021	\$ 15,652
Cash with fiscal agents.....	39,330	1,320,591	1,328,757	31,164
Temporary investments.....	826,534	2,098,581	2,182,094	743,021
Long-term investments.....	3,161,970	2,668,949	2,701,536	3,129,383
Receivables (net):				
Taxes.....	29,807	39,878	37,566	32,119
Accounts.....	44,673	39,495	44,388	39,780
Investment income.....	13,363	58,211	58,315	13,259
Interest on notes and loans.....	-	1,488	1,488	-
Loans.....	-	1,186	1,186	-
Investment sale proceeds.....	17,328	122,578	135,542	4,364
Due from other funds.....	-	8,028	8,028	-
Advances to other funds.....	67,500	-	-	67,500
Other assets.....	4,250,662	484,718	605,585	4,129,795
<b>TOTAL ASSETS</b> .....	<u>\$ 8,465,272</u>	<u>\$ 17,606,271</u>	<u>\$ 17,865,506</u>	<u>\$ 8,206,037</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 180,197	\$ 1,019,584	\$ 1,020,160	\$ 179,621
Investment purchases payable.....	5,256	195,213	192,111	8,358
Securities lending obligations.....	17,648	10,938	17,648	10,938
Due to other funds.....	-	725	725	-
Due to political subdivisions.....	431,531	357,369	374,424	414,476
Due to other governments.....	5	41	41	5
Compensated absence liability.....	419	425	419	425
Self insurance liabilities.....	401	358	401	358
Other postemployment benefit obligations.....	1,229	1,403	1,247	1,385
Other liabilities.....	7,828,586	7,409,871	7,647,986	7,590,471
<b>TOTAL LIABILITIES</b> .....	<u>\$ 8,465,272</u>	<u>\$ 8,995,927</u>	<u>\$ 9,255,162</u>	<u>\$ 8,206,037</u>

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Discretely Presented Component Units

## NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS DESCRIPTION

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable, or other organizations for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

**State Public School Building Authority** — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts. These bonds are repaid solely from lease/loan payments from the schools.

**Philadelphia Shipyard Development Corporation** — assists the primary government (PG) and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The Philadelphia Shipyard Development Corporation has a December 31, 2013 fiscal year end.

**Ben Franklin Technology Development Authority** — promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the Ben Franklin Technology Development Authority increase Pennsylvania business competitiveness.

**Pennsylvania Higher Educational Facilities Authority** — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the colleges and universities.

**Port of Pittsburgh Commission** — promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities.

**Pennsylvania Industrial Development Authority** — collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas, or assist specific companies.

**Pennsylvania Convention Center Authority** — operates the Pennsylvania Convention Center located in the City of Philadelphia.

**Thaddeus Stevens College of Technology (College)** — is a two year technical college that prepares students for skilled employment in a diverse, ever-changing workforce. The College offers a two year degree or nine month certificate, in twenty two different programs of study. The Commonwealth appropriates monies for College operations.

**Pennsylvania Energy Development Authority (PEDA)** — finances clean, advanced energy projects in Pennsylvania. Pennsylvania projects that could potentially qualify for funding from the PEDA include solar energy, wind, low-impact hydropower, geothermal, biomass, landfill gas, fuel cells, IGCC, waste coal, coal-mine methane, and demand management measures. The PEDA presently can award grants, loans, and loan guarantees.

**Pennsylvania eHealth Partnership Authority** — promotes and maintains a health information exchange that complies with Federal and State law.

There are a total of sixteen discretely presented component units (DPCU). The **Pennsylvania Turnpike Commission, Pennsylvania Housing Finance Agency, Pennsylvania Higher Education Assistance Agency, Pennsylvania Infrastructure Investment Authority,** and **State System of Higher Education** are reported as major DPCU's. The Pennsylvania Economic Development Financing Authority is not reported because the only activities for this component unit involve conduit debt.



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**Commonwealth of Pennsylvania**  
**Combining Statement of Net Position**  
Nonmajor Discretely Presented Component Units  
June 30, 2014

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2013)	Ben Franklin Technology Development Authority	Pennsylvania Higher Educational Facilities Authority	Port of Pittsburgh Commission
<b>ASSETS</b>					
Current assets:					
Cash.....	\$ -	\$ 1,622	\$ -	\$ -	\$ -
Temporary investments.....	3,544	-	8,518	-	2,757
Receivables (net):					
Accounts .....	1	-	-	-	1
Investment income.....	80	-	1	-	-
Interest on notes and loans.....	20	-	-	-	-
Loans.....	2,748	-	-	-	-
Other .....	-	-	-	-	-
Due from primary government.....	-	-	-	-	-
Due from Federal government.....	-	-	-	-	94
Inventory.....	-	-	-	-	-
Prepaid and deferred expenses.....	-	17	-	-	-
Total current assets .....	6,393	1,639	8,519	-	2,852
Noncurrent assets:					
Restricted cash.....	-	-	-	-	-
Long-term investments.....	21,985	-	-	-	-
Receivables (net):					
Loans.....	3,200	-	21,349	-	-
Non-depreciable capital assets:					
Land.....	-	161	-	-	-
Construction in progress.....	-	-	-	-	-
Depreciable or amortizable capital assets:					
Land improvements.....	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-
Machinery and equipment.....	342	2	-	-	2,114
Library books.....	-	-	-	-	-
Intangible assets.....	-	-	-	-	33
Less: accumulated depreciation and amortization.....	(321)	-	-	-	(1,199)
Net depreciable or amortizable capital assets.....	21	2	-	-	948
Other assets.....	-	15,321	-	-	-
Total noncurrent assets .....	25,206	15,484	21,349	-	948
<b>TOTAL ASSETS.....</b>	<b>31,599</b>	<b>17,123</b>	<b>29,868</b>	<b>-</b>	<b>3,800</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities.....	77	-	284	-	163
Securities lending obligations.....	-	-	-	-	-
Due to primary government.....	-	-	2	-	6
Due to political subdivisions.....	-	-	-	-	9
Due to other governments.....	-	-	-	-	-
Interest payable.....	-	-	-	-	-
Unearned revenue.....	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	-
Compensated absences.....	34	-	-	-	-
Other postemployment benefit obligations.....	-	-	-	-	-
Other liabilities.....	47	-	-	-	-
Total current liabilities.....	158	-	286	-	178
Non-current liabilities:					
Revenue bond payable.....	-	-	-	-	2,000
Compensated absences.....	64	-	-	-	105
Other postemployment benefit obligations.....	306	-	74	-	128
Other liabilities.....	219	15,321	-	-	-
Total non-current liabilities.....	589	15,321	74	-	2,233
<b>TOTAL LIABILITIES.....</b>	<b>747</b>	<b>15,321</b>	<b>360</b>	<b>-</b>	<b>2,411</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	21	163	-	-	(1,068)
Restricted for:					
Health-related programs.....	-	-	-	-	-
Debt service.....	-	-	-	-	-
Economic development.....	-	1,639	29,508	-	2,457
Higher education.....	-	-	-	-	-
Other purposes.....	30,831	-	-	-	-
Unrestricted/(Deficit).....	-	-	-	-	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 30,852</b>	<b>\$ 1,802</b>	<b>\$ 29,508</b>	<b>\$ -</b>	<b>\$ 1,389</b>

Pennsylvania Industrial Development Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Pennsylvania Energy Development Authority	Pennsylvania eHealth Partnership Authority	Total
\$ 244	\$ 44,883	\$ 7,945	\$ -	\$ -	\$ 54,694
220,967	-	-	516	2,223	238,525
-	1,742	104	-	-	1,848
-	-	-	-	-	81
521	-	-	-	-	541
36,339	-	-	104	-	39,191
-	-	1,105	-	-	1,105
-	125,437	-	-	2,000	127,437
-	-	-	-	8,567	8,661
-	-	613	-	-	613
-	1,091	84	-	-	1,192
258,071	173,153	9,851	620	12,790	473,888
-	-	891	-	-	891
-	-	2,252	4,978	-	29,215
259,557	-	-	78	-	284,184
-	994	-	-	-	1,155
-	2,786	20	-	-	2,806
-	-	1,767	-	-	1,767
-	759,548	531	-	-	760,079
-	164,573	4,480	-	-	171,511
-	-	536	-	-	536
-	-	-	-	-	33
-	(253,442)	(4,881)	-	-	(259,843)
-	670,679	2,433	-	-	674,083
453	2,327	930	-	-	19,031
260,010	676,786	6,526	5,056	-	1,011,365
518,081	849,939	16,377	5,676	12,790	1,485,253
3,650	-	-	-	-	3,650
208	8,654	1,773	3	145	11,307
-	-	-	142	-	142
-	-	-	1	8,567	8,576
-	-	-	-	-	9
-	-	-	-	3	3
6,026	-	-	-	-	6,026
-	1,514	129	-	-	1,643
21,105	-	-	-	-	21,105
-	-	332	-	9	375
-	275	-	-	-	275
-	154	-	-	-	201
27,339	10,597	2,234	146	8,724	49,662
235,271	-	-	-	-	237,271
-	-	1,634	-	42	1,845
-	3,678	2,524	2	-	6,712
-	123,044	65	-	-	138,649
235,271	126,722	4,223	2	42	384,477
262,610	137,319	6,457	148	8,766	434,139
-	674,459	2,453	-	-	676,028
-	-	-	-	4,024	4,024
56,245	-	-	-	-	56,245
-	38,161	-	5,528	-	77,293
-	-	7,467	-	-	7,467
-	-	-	-	-	30,831
202,876	-	-	-	-	202,876
\$ 259,121	\$ 712,620	\$ 9,920	\$ 5,528	\$ 4,024	\$ 1,054,764

**Commonwealth of Pennsylvania**

**Combining Statement of Activities**

Nonmajor Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	<b>State Public School Building Authority</b>	<b>Philadelphia Shipyards Development Corporation (December 31, 2013)</b>	<b>Ben Franklin Technology Development Authority</b>	<b>Pennsylvania Higher Educational Facilities Authority</b>
Expenses.....	\$ 1,418	\$ 400	\$ 19,346	\$ 1,352
Program revenues:				
Charges for goods and services.....	1,468	-	1,794	1,352
Operating grants and contributions.....	405	4	14,550	-
Capital grants and contributions.....	-	-	-	-
<b>Total program revenues.....</b>	<b>1,873</b>	<b>4</b>	<b>16,344</b>	<b>1,352</b>
<b>Change in net position.....</b>	<b>455</b>	<b>(396)</b>	<b>(3,002)</b>	<b>-</b>
<b>Net position, July 1, 2013 (restated).....</b>	<b>30,397</b>	<b>2,198</b>	<b>32,510</b>	<b>-</b>
<b>Net position, June 30, 2014.....</b>	<b>\$ 30,852</b>	<b>\$ 1,802</b>	<b>\$ 29,508</b>	<b>\$ -</b>

Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Pennsylvania Energy Development Authority	Pennsylvania eHealth Partnership Authority	Total
\$ 1,700	\$ 11,567	\$ 73,160	\$ 19,248	\$ 42	\$ 10,261	\$ 138,494
3	10,713	15,308	7,632	9	465	38,744
555	119	29,812	12,805	560	12,020	70,830
-	-	29,478	-	-	-	29,478
558	10,832	74,598	20,437	569	12,485	139,052
(1,142)	(735)	1,438	1,189	527	2,224	558
2,531	259,856	711,182	8,731	5,001	1,800	1,054,206
\$ 1,389	\$ 259,121	\$ 712,620	\$ 9,920	\$ 5,528	\$ 4,024	\$ 1,054,764

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014

# Statistical Section

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## Commonwealth of Pennsylvania

## Financial Trends

Table 1

Net Position by Component

Last Ten Fiscal Years as of June 30

(Accrual basis of accounting-amounts in thousands)

	2005	2006	2007	2008 (4)	2009 (4)	2010	2011	2012 (5)	2013 (5)(7)	2014 (7)
<b>GOVERNMENTAL ACTIVITIES (1)</b>										
Net investment in capital assets.....	\$ 18,258,125	\$ 19,068,573	\$ 20,015,677	\$ 21,482,118	\$ 22,821,832	\$ 24,102,905	\$ 25,352,588	\$ 26,580,581	\$ 27,774,808	\$ 28,344,818
Restricted for:										
General government operations (2)(6).....	N/A	N/A	N/A	N/A	N/A	N/A	672,834	-	1,739	-
Health-related programs.....	1,215,291	1,320,703	1,454,502	1,410,932	1,291,318	1,048,684	61,785	18,977	18,830	16,982
Transportation.....	990,743	1,578,753	1,266,928	1,520,801	1,342,189	1,318,358	1,000,129	670,168	352,317	298,733
Capital projects.....	173,790	196,301	213,556	-	-	11	-	-	-	-
Debt service.....	83,885	8,118	20,474	27,458	16,834	46,853	-	-	-	-
Unemployment/worker's compensation.....	-	29,754	104,579	120,181	125,515	301,372	367,006	427,934	499,547	528,908
Elderly programs.....	92,531	32,327	10,808	38,264	62,183	50,213	-	-	-	-
Environmental and conservation programs.....	420,600	435,976	473,210	457,726	529,274	592,672	331,102	565,891	512,807	551,972
Economic development (3).....	N/A	18,171	16,217	22,530	23,576	25,312	-	-	-	-
Gaming licensing/regulation (3).....	N/A	2,128	299,396	947,145	917,466	771,616	720,578	725,468	709,348	651,467
Correctional industries and procurement (3)....	N/A	133,934	30,348	46,541	37,701	49,467	62,868	71,095	52,287	38,976
Emergency support (3).....	N/A	56,543	60,917	58,063	57,324	58,209	51,926	46,793	52,178	50,535
Higher education (3).....	N/A	N/A	N/A	7,023	8,985	7,715	-	-	-	-
Other purposes (3).....	303,409	82,770	87,077	88,580	58,842	55,616	40,078	35,614	35,626	57,614
Unrestricted (deficit).....	(739,160)	(372,089)	343,162	(648,689)	(4,053,146)	(4,881,426)	(4,407,594)	(5,460,053)	(5,685,524)	(7,658,746)
<b>TOTAL GOVERNMENTAL</b>										
<b>ACTIVITIES NET POSITION.....</b>	<b>20,799,214</b>	<b>22,591,962</b>	<b>24,396,851</b>	<b>25,578,673</b>	<b>23,239,893</b>	<b>23,547,577</b>	<b>24,253,300</b>	<b>23,682,468</b>	<b>24,323,963</b>	<b>22,881,259</b>
<b>BUSINESS-TYPE ACTIVITIES (1)</b>										
Net investment in capital assets.....	46,567	82,694	56,010	72,668	78,561	74,392	84,065	77,259	465,161	489,357
Restricted for:										
Health-related programs.....	-	4,814	2,413	1,942	1,059	2,837	2,323	1,340	4,456	5,588
Transportation.....	50,433	52,960	58,085	103,274	103,652	110,987	118,938	121,760	126,986	134,364
Debt service.....	-	-	-	-	-	-	-	-	4,199	4,199
Unemployment/worker's compensation.....	1,808,170	2,397,720	2,547,726	2,378,092	342,098	-	-	-	-	-
Elderly programs.....	291,329	325,925	340,836	124,351	-	-	-	-	-	-
Economic development (3).....	N/A	212,792	288,246	299,924	283,012	295,502	304,767	309,636	325,269	333,821
Emergency support (3).....	N/A	126,505	129,546	132,837	134,685	138,884	144,834	147,747	151,853	156,951
Higher Education.....	N/A	N/A	N/A	-	-	-	-	-	29,009	155,638
Other purposes (3).....	450,961	152,629	165,168	126,799	76,573	85,177	94,985	98,203	105,929	147,076
Unrestricted (deficit).....	(43,812)	-	-	(73,973)	(403,122)	(1,916,364)	(2,314,339)	(1,913,601)	(2,412,444)	(1,961,503)
<b>TOTAL BUSINESS-TYPE</b>										
<b>ACTIVITIES NET POSITION.....</b>	<b>2,603,648</b>	<b>3,356,039</b>	<b>3,588,030</b>	<b>3,165,914</b>	<b>616,518</b>	<b>(1,208,585)</b>	<b>(1,564,427)</b>	<b>(1,157,656)</b>	<b>(1,199,582)</b>	<b>(534,509)</b>

## Commonwealth of Pennsylvania

## Financial Trends

Table 1

Net Position by Component

Last Ten Fiscal Years as of June 30

(Accrual basis of accounting-amounts in thousands)

	2005	2006	2007	2008 (4)	2009 (4)	2010	2011	2012 (5)	2013 (5)(7)	2014 (7)
<b>PRIMARY GOVERNMENT (1)</b>										
Net investment in capital assets.....	18,304,692	19,151,267	20,071,687	21,554,786	22,900,393	24,177,297	25,436,653	26,657,840	28,239,969	28,834,175
Restricted for:										
General government operations (2)(6).....	N/A	N/A	N/A	N/A	N/A	N/A	672,834	-	1,739	-
Health-related programs.....	1,215,291	1,325,517	1,456,915	1,412,874	1,292,377	1,051,521	64,108	20,317	23,286	22,570
Transportation.....	1,041,176	1,631,713	1,325,013	1,624,075	1,445,841	1,429,345	1,119,067	791,928	479,303	433,097
Capital projects.....	173,790	196,301	213,556	-	-	11	-	-	-	-
Debt service.....	83,885	8,118	20,474	27,458	16,834	46,853	-	-	4,199	4,199
Unemployment/worker's compensation.....	1,808,170	2,427,474	2,652,305	2,498,273	467,613	301,372	367,006	427,934	499,547	528,908
Elderly programs.....	383,860	358,252	351,644	162,615	62,183	50,213	-	-	-	-
Environmental and conservation programs.....	420,600	435,976	473,210	457,726	529,274	592,672	331,102	565,891	512,807	551,972
Economic development (3).....	N/A	230,963	304,463	322,454	306,588	320,814	304,767	309,636	325,269	333,821
Gaming licensing/regulation (3).....	N/A	2,128	299,396	947,145	917,466	771,616	720,578	725,468	709,348	651,467
Correctional industries and procurement (3)....	N/A	133,934	30,348	46,541	37,701	49,467	62,868	71,095	52,287	38,976
Emergency support (3).....	N/A	183,048	190,463	190,900	192,009	197,093	196,760	194,540	204,031	207,486
Higher education (3).....	N/A	N/A	N/A	7,023	8,985	7,715	-	-	29,009	155,638
Other purposes (3).....	754,370	235,399	252,245	215,379	135,415	140,793	135,063	133,817	141,555	204,690
Unrestricted (deficit).....	(782,972)	(372,089)	343,162	(722,662)	(4,456,268)	(6,797,790)	(6,721,933)	(7,373,654)	(8,097,968)	(9,620,249)
<b>TOTAL PRIMARY GOVERNMENT</b>										
<b>NET POSITION (1).....</b>	<u>\$ 23,402,862</u>	<u>\$ 25,948,001</u>	<u>\$ 27,984,881</u>	<u>\$ 28,744,587</u>	<u>\$ 23,856,411</u>	<u>\$ 22,338,992</u>	<u>\$ 22,688,873</u>	<u>\$ 22,524,812</u>	<u>\$ 23,124,381</u>	<u>\$ 22,346,750</u>

**Source:** The Commonwealth's Comprehensive Annual Financial Report (CAFR), as presented for the applicable fiscal year. For fiscal years 2005-2012, the information can be found in the Statement of Net Assets. Beginning with the 2013 fiscal year, the information can be found in the Statement of Net Position.

**Notes:**

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented two new GASB standards which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. Therefore, their net position is reported within the Business-Type Activities caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the Governmental Activities caption. The implementation of GASB 63 resulted in the Commonwealth reporting a Statement of Net Position for the 2013 fiscal year, replacing the Statement of Net Assets which had been reported in previous fiscal years. For purposes of this table, the implementation of GASB 63 had no effect other than changing the title of this table and the net investment in capital assets caption title. The purpose of each reported caption did not change with the implementation. These two standards were not retroactively applied to the previous fiscal years; therefore the amounts shown for the 2005-2012 fiscal years were those reported within the Statement of Net Assets for the applicable fiscal year. For ease of reading this table and the additional notes shown below, net position is interchanged with net assets which were in effect for fiscal years 2005-2012.

(2)-For the 2011 fiscal year, the caption "General government operations" was created specifically for any net position restrictions reported within that portion of the General Fund not associated with the 38 former Special Revenue funds which were reclassified as components of the General Fund. In past fiscal years, this portion, if not reported as a deficit, was reported within various net position restriction categories. These changes have not been retroactively applied to prior fiscal years.

(3)-Since the 2005 fiscal year, additional restricted net position categories have been created to provide a more refined description of the restrictions. These restrictions were not applied retroactively and are marked with N/A in the fiscal years prior to the newer creation of the restricted net position category. These categories were created either for new funds or funds previously reported in the "Other purposes" category. The "Gaming licensing/regulation" category was created for the Gaming Fund, a governmental fund type, which was established in the 2006 fiscal year. Other notable funds being reported in different categories are the Internal Service funds-reported in the "Correctional industries and procurement" category; Machinery and Equipment Loan Fund and Small Business First Fund (both Proprietary fund types)-reported in the "Economic development" category; the Volunteer Companies Loan Fund (a Proprietary fund type)-reported in the "Emergency support" category; and the Educational Assistance Program Fund (a component of the General Fund)-reported in the "Higher education" category.

(4)-In the June 30, 2009 CAFR, the beginning net position balance for Governmental Activities was restated and decreased by \$273,654 as of July 1, 2008. Therefore, the ending net position balance (for both Governmental Activities and Total Primary Government Net position) shown in this table as of June 30, 2008 plus the change in net position shown in Table 2 for the June 30, 2009 fiscal year will differ from the ending net position balance (for both Governmental and Total Primary Government Net position) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

(5)-As a result of the implementation of GASB 61 described in Note 1 above, the beginning net position balance for Governmental Activities and Business-Type Activities was decreased by \$6,165 and \$273,595, respectively, as of July 1, 2012. Therefore, the ending net position balance (for Governmental Activities, Business-Type Activities, and Total Primary Government) shown in this table as of June 30, 2012 plus the change in net position shown in Table 2 for the June 30, 2013 fiscal year will differ from the ending net position balance (for Governmental Activities, Business Type Activities and Total Primary Government) shown in this table as of June 30, 2013. Note B in the Notes to the Financial Statements in the June 30, 2013 CAFR provides additional details on this restatement.

(6)-For the 2011 fiscal year, balances in the amount of \$672,834 related to the grant ledgers were reported as restricted. For the 2012 fiscal year, those balances were reported as unrestricted/(deficit).

(7)-For the 2014 fiscal year, the Commonwealth implemented GASB Statement 65 requiring the deferral of resources. With the implementation of GASB 65, the beginning net position for Governmental Activities, Business Type Activities and Total Primary Government Net Position was restated and decreased by \$31,614, \$34,565, and \$66,179, respectively, as of July 1, 2013. Therefore, the ending net position balance (for Governmental Activities, Business-Type Activities, and Total Primary Government) shown in this table as of June 30, 2013 plus the change in net position shown in Table 2 for the June 30, 2014 fiscal year will differ from the ending net position balance (for Governmental Activities, Business Type Activities and Total Primary Government) shown in this table as of June 30, 2014. Note B to the Financial Statements provides additional details on this restatement.

## Commonwealth of Pennsylvania

## Financial Trends

Table 2

Changes in Net Position

For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting-amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (5)
<b>GOVERNMENTAL ACTIVITIES (1)</b>										
<b>Expenses:</b>										
Direction and supportive services.....	\$ 2,229,850	\$ 2,162,552	\$ 1,208,409	\$ 1,479,962	\$ 1,492,541	\$ 1,950,908	\$ 2,052,743	\$ 2,243,649	\$ 1,528,057	\$ 1,619,894
Protection of persons and property .....	4,244,332	4,439,794	4,487,633	4,922,684	5,480,770	5,682,950	5,384,710	5,541,681	6,010,950	6,216,380
Public education.....	11,428,452	11,816,608	12,464,663	13,107,648	14,045,890	14,520,733	14,864,360	13,394,225	13,885,466	14,205,019
Health and human services.....	24,166,791	24,139,762	24,264,933	25,215,388	26,615,566	28,321,389	30,388,529	30,680,717	30,495,970	31,634,286
Economic development.....	1,314,636	1,409,506	1,738,172	1,720,992	1,614,214	1,580,654	1,598,596	1,537,068	1,032,887	1,005,570
Transportation.....	3,261,642	3,229,351	3,922,517	4,182,916	4,278,022	4,951,010	4,465,639	4,382,503	4,764,139	5,204,513
Recreation and cultural enrichment.....	448,585	520,330	569,510	571,009	602,365	559,311	491,082	514,309	519,242	522,662
Interest.....	296,267	337,142	344,557	371,249	382,065	395,305	440,428	475,545	489,401	494,177
<b>Total expenses.....</b>	<b>47,390,555</b>	<b>48,055,045</b>	<b>49,000,394</b>	<b>51,571,848</b>	<b>54,511,433</b>	<b>57,962,260</b>	<b>59,686,087</b>	<b>58,769,697</b>	<b>58,726,112</b>	<b>60,902,501</b>
<b>Program revenues:</b>										
Charges for sales and services:										
Direction and supportive services.....	1,377,293	991,541	143,290	143,933	74,320	216,188	252,572	277,492	363,296	256,820
Protection of persons and property .....	831,785	1,080,708	1,309,256	1,214,038	1,083,889	1,331,281	1,034,481	1,302,020	1,380,582	1,348,469
Public education.....	1,702	13,161	14,793	17,641	15,756	18,201	14,928	4,776	5,926	5,337
Health and human services.....	2,871,487	1,913,377	1,730,965	1,800,212	1,559,638	1,134,144	1,597,599	1,658,657	1,641,534	1,726,322
Economic development.....	11,028	16,373	12,277	11,379	15,553	12,317	11,812	8,205	13,910	6,373
Transportation.....	1,029,406	949,533	952,866	945,536	944,486	910,721	976,705	970,026	972,417	1,036,790
Recreation and cultural enrichment.....	153,641	166,750	162,168	162,013	312,287	416,053	181,373	245,405	304,903	338,954
Operating grants and contributions.....	16,773,012	16,532,924	17,229,000	17,936,693	20,370,216	25,620,597	26,071,112	22,816,711	22,792,032	22,859,945
Capital grants and contributions.....	14,944	55,761	23,495	4,610	47,320	57,628	221,195	67,866	91,603	42,261
<b>Total program revenues.....</b>	<b>23,064,298</b>	<b>21,720,128</b>	<b>21,578,110</b>	<b>22,236,055</b>	<b>24,423,465</b>	<b>29,717,130</b>	<b>30,361,777</b>	<b>27,351,158</b>	<b>27,566,203</b>	<b>27,621,271</b>
<b>Total governmental activities net program revenues/(expenses).....</b>	<b>(24,326,257)</b>	<b>(26,334,917)</b>	<b>(27,422,284)</b>	<b>(29,335,793)</b>	<b>(30,087,968)</b>	<b>(28,245,130)</b>	<b>(29,324,310)</b>	<b>(31,418,539)</b>	<b>(31,159,909)</b>	<b>(33,281,230)</b>
<b>General revenues and other changes in net position:</b>										
<b>General revenues:</b>										
<b>Taxes:</b>										
Personal income.....	8,312,440	9,093,338	9,951,585	10,438,976	9,553,538	9,414,864	9,771,269	10,022,285	10,798,328	10,817,073
Sales and use.....	7,917,396	8,381,262	8,629,815	8,779,768	8,417,292	8,309,905	8,610,603	8,977,379	9,106,779	9,293,356
Corporation.....	4,400,995	5,074,730	4,985,031	5,157,589	4,209,705	4,146,477	4,469,094	4,504,105	4,781,555	4,314,093
Liquid fuels and motor carriers.....	1,863,223	2,033,227	2,072,442	2,024,045	1,975,678	2,045,505	2,092,645	2,096,222	2,058,226	2,349,982
Gaming (2).....	N/A	N/A	251,059	769,064	999,247	1,232,829	1,409,388	1,487,729	1,447,796	1,404,277
Inheritance.....	668,992	793,279	716,788	802,865	733,405	698,980	783,824	803,573	796,007	850,221
Cigarette.....	811,578	1,033,099	983,580	1,026,125	1,000,987	1,088,405	1,104,355	1,081,587	1,038,605	968,436
Realty transfer (3).....	N/A	646,870	583,991	500,786	348,003	346,094	328,997	343,015	396,552	439,797
Other (3).....	992,343	418,110	475,197	592,744	492,420	1,035,935	1,167,804	1,306,395	1,353,566	1,499,745
<b>Total taxes.....</b>	<b>24,966,967</b>	<b>27,473,915</b>	<b>28,649,488</b>	<b>30,091,962</b>	<b>27,730,275</b>	<b>28,318,994</b>	<b>29,737,979</b>	<b>30,622,290</b>	<b>31,777,414</b>	<b>31,936,980</b>
Investment income.....	131,629	188,750	320,342	128,722	(137,831)	15,099	52,129	14,979	12,876	36,311
<b>Total general revenues.....</b>	<b>25,098,596</b>	<b>27,662,665</b>	<b>28,969,830</b>	<b>30,220,684</b>	<b>27,592,444</b>	<b>28,334,093</b>	<b>29,790,108</b>	<b>30,637,269</b>	<b>31,790,290</b>	<b>31,973,291</b>
Transfers from business-type activities.....	341,232	465,000	257,343	296,931	430,398	218,721	239,925	210,438	17,275	(103,151)
<b>Net general revenues and transfers.....</b>	<b>25,439,828</b>	<b>28,127,665</b>	<b>29,227,173</b>	<b>30,517,615</b>	<b>28,022,842</b>	<b>28,552,814</b>	<b>30,030,033</b>	<b>30,847,707</b>	<b>31,807,565</b>	<b>31,870,140</b>
<b>Total governmental activities change in net position.....</b>	<b>\$ 1,113,571</b>	<b>\$ 1,792,748</b>	<b>\$ 1,804,889</b>	<b>\$ 1,181,822</b>	<b>\$ (2,065,126)</b>	<b>\$ 307,684</b>	<b>\$ 705,723</b>	<b>\$ (570,832)</b>	<b>\$ 647,656</b>	<b>\$ (1,411,090)</b>

Commonwealth of Pennsylvania

Financial Trends

Table 2

Changes in Net Position

For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting-amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (5)
<b>BUSINESS-TYPE ACTIVITIES (1)</b>										
<b>Expenses</b>										
State lottery.....	\$ 2,298,417	\$ 2,704,265	\$ 3,100,523	\$ 3,157,593	\$ 3,173,322	\$ 3,079,381	\$ 3,155,903	\$ 3,429,773	\$ 3,732,233	\$ 3,720,574
State workers' insurance.....	449,880	412,104	553,512	616,256	388,424	338,229	306,318	268,388	365,900	267,991
Tuition payment.....	192,802	138,275	267,941	224,791	100,028	235,876	259,069	236,342	248,592	277,139
Unemployment compensation (4).....	1,774,676	1,998,613	2,074,382	2,289,977	6,250,213	8,741,990	7,460,707	6,031,968	4,498,001	3,189,395
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	261,428	189,682
Liquor control.....	1,088,875	1,178,434	1,277,871	1,318,503	1,437,168	1,478,971	1,504,517	1,569,868	1,618,065	1,683,185
Economic development and other (1).....	16,456	18,433	14,470	3,148	14,171	13,706	23,635	16,997	41,199	47,212
<b>Total expenses.....</b>	<b>5,821,106</b>	<b>6,450,124</b>	<b>7,288,699</b>	<b>7,610,268</b>	<b>11,363,326</b>	<b>13,888,153</b>	<b>12,710,149</b>	<b>11,553,336</b>	<b>10,765,418</b>	<b>9,375,178</b>
<b>Program revenues</b>										
Charges for sales and services:										
State lottery.....	2,644,407	3,047,978	3,076,013	3,100,962	3,088,231	3,052,097	3,206,933	3,476,953	3,671,780	3,786,090
State workers' insurance.....	355,883	427,970	374,088	384,301	291,677	223,458	173,571	157,579	178,058	207,208
Tuition payment.....	141,817	113,831	151,121	138,361	153,892	157,336	165,157	185,947	182,555	191,766
Unemployment compensation (4).....	1,961,085	2,373,163	2,172,900	2,061,780	2,423,125	2,328,099	2,579,252	3,447,659	3,031,318	2,900,976
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10,172	8,463
Liquor control.....	1,183,667	1,272,101	1,364,524	1,428,638	1,507,512	1,527,998	1,586,394	1,673,027	1,747,060	1,803,367
Economic development and other (1).....	17,201	17,585	20,068	20,149	19,067	22,254	24,449	17,478	25,816	25,305
Operating grants and contributions.....	361,874	414,887	619,319	350,892	1,760,824	4,970,529	4,858,476	3,211,902	2,166,475	1,048,220
Capital grants and contributions.....	-	-	-	-	-	-	-	-	1,128	270
<b>Total program revenues.....</b>	<b>6,665,934</b>	<b>7,667,515</b>	<b>7,778,033</b>	<b>7,485,083</b>	<b>9,244,328</b>	<b>12,281,771</b>	<b>12,594,232</b>	<b>12,170,545</b>	<b>11,014,362</b>	<b>9,971,665</b>
<b>Total business-type activities net program revenues/(expenses).....</b>	<b>844,828</b>	<b>1,217,391</b>	<b>489,334</b>	<b>(125,185)</b>	<b>(2,118,998)</b>	<b>(1,606,382)</b>	<b>(115,917)</b>	<b>617,209</b>	<b>248,944</b>	<b>596,487</b>
<b>Other changes in net position</b>										
Transfers to governmental activities.....	(341,232)	(465,000)	(257,343)	(296,931)	(430,398)	(218,721)	(239,925)	(210,438)	(17,275)	103,151
<b>Net special items and transfers.....</b>	<b>(341,232)</b>	<b>(465,000)</b>	<b>(257,343)</b>	<b>(296,931)</b>	<b>(430,398)</b>	<b>(218,721)</b>	<b>(239,925)</b>	<b>(210,438)</b>	<b>(17,275)</b>	<b>103,151</b>
<b>Total business-type activities change in net position.....</b>	<b>503,596</b>	<b>752,391</b>	<b>231,991</b>	<b>(422,116)</b>	<b>(2,549,396)</b>	<b>(1,825,103)</b>	<b>(355,842)</b>	<b>406,771</b>	<b>231,669</b>	<b>699,638</b>
<b>Total primary government change in net position.....</b>	<b>\$ 1,617,167</b>	<b>\$ 2,545,139</b>	<b>\$ 2,036,880</b>	<b>\$ 759,706</b>	<b>\$ (4,614,522)</b>	<b>\$ (1,517,419)</b>	<b>\$ 349,881</b>	<b>\$ (164,061)</b>	<b>\$ 879,325</b>	<b>\$ (711,452)</b>

**Source:** Statement of Activities, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

**Notes:**

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented two new GASB standards which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. The Commonwealth Financing Authority is reported as a major enterprise fund, and is reported under the Commonwealth Financing Authority caption. The Philadelphia Regional Port Authority is reported as a nonmajor enterprise fund, and is reported within the "Economic development and other" caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the Governmental Activities caption. The implementation of GASB 63 resulted in the Commonwealth reporting a Statement of Net Position for the 2013 fiscal year, replacing the Statement of Net Assets which had been reported in previous fiscal years. For purposes of this table, the implementation of GASB 63 had no effect other than changing the reference to changes in net position rather than changes in net assets. These two standards were not retroactively applied to the previous fiscal years. For ease of reading this table, change in net position is interchanged with change in net assets which were in effect for fiscal years 2005-2012.

(2)-During the 2007 fiscal year, the first licensed gaming facilities opened and the resulting taxes from their activities were reported in the Gaming Fund, a special revenue fund.

(3)-Beginning with the 2006 fiscal year, realty transfer taxes were reported separately in the Statement of Activities. These taxes had previously been reported within the "Other" taxes category. This caption is marked with N/A prior to the 2006 fiscal year.

(4)-In the Unemployment Compensation Fund, the June 30, 2010 fiscal year amounts for expenses and program revenues were reduced by \$3,008,615 in order to present a reclassification made in the June 30, 2011 fiscal year. The June 30, 2010 CAFR was not restated to reflect these amounts.

(5)-Beginning with the 2014 fiscal year, the Commonwealth implemented GASB Statement 65. As noted in Table 1, the Commonwealth restated its net position for July1, 2013. Details on the restatement can be found in Note B to the Financial Statements. The primary effect on this table is that beginning with the 2014 fiscal year, certain assets are now reported as expenses. The changes were not made retroactively.

# Commonwealth of Pennsylvania Financial Trends

Table 3  
Governmental Fund Type Fund Balances  
Last Ten Fiscal Years as of June 30

(Modified accrual basis of accounting-amounts in thousands)

	2005	2006	2007	2008 (6)	2009 (6)	2010	2011	2012 (7)	2013 (7)	2014
<b>GENERAL FUND (1)(2)(3)(4)(8)</b>										
Reserved for:										
Encumbrances.....	\$ 617,861	\$ 709,115	\$ 570,027	\$ 568,678	\$ 785,864	\$ 806,181	N/A	N/A	N/A	N/A
Advances.....	114,108	114,108	114,108	114,108	139,108	139,108	N/A	N/A	N/A	N/A
Loans receivable.....	4,496	10,953	11,113	8,358	9,924	9,989	N/A	N/A	N/A	N/A
Budget Stabilization Reserve.....	70,303	171,362	538,764	745,949	745,949	-	N/A	N/A	N/A	N/A
Other.....	621,004	454,639	844,229	1,148,218	1,375,432	764,206	N/A	N/A	N/A	N/A
Unreserved:										
Designated for:										
Other.....	514,174	719,414	923,966	379,169	-	-	N/A	N/A	N/A	N/A
Undesignated.....	927,163	789,958	368,659	9,621	(2,541,099)	(1,434,681)	N/A	N/A	N/A	N/A
Nonspendable.....	N/A	N/A	N/A	N/A	N/A	N/A	123,156	240,975	223,930	265,403
Restricted (5).....	N/A	N/A	N/A	N/A	N/A	N/A	756,141	-	76	45
Committed.....	N/A	N/A	N/A	N/A	N/A	N/A	1,063,613	1,276,671	1,334,872	1,119,470
Assigned.....	N/A	N/A	N/A	N/A	N/A	N/A	-	-	7,132	-
Unassigned/(deficit) (5).....	N/A	N/A	N/A	N/A	N/A	N/A	(321,475)	(258,351)	-	(1,950,956)
<b>TOTAL GENERAL FUND.....</b>	<b>2,869,109</b>	<b>2,969,549</b>	<b>3,370,866</b>	<b>2,974,101</b>	<b>515,178</b>	<b>284,803</b>	<b>1,621,435</b>	<b>1,259,295</b>	<b>1,566,010</b>	<b>(566,038)</b>
<b>ALL OTHER GOVERNMENTAL FUNDS (1)(2)(3)(4)(8)</b>										
Reserved for:										
Encumbrances.....	1,454,129	1,630,382	1,927,151	2,057,615	2,085,395	2,329,299	N/A	N/A	N/A	N/A
Advances.....	210,000	3,000	3,000	3,000	3,000	3,000	N/A	N/A	N/A	N/A
Loans receivable.....	32,065	32,684	39,859	73,628	83,100	79,315	N/A	N/A	N/A	N/A
Other.....	817,668	857,253	1,329,707	940,263	916,713	907,005	N/A	N/A	N/A	N/A
Unreserved:										
Designated for, reported in:										
Highways.....	218,885	203,118	235,730	689,288	700,018	768,710	N/A	N/A	N/A	N/A
Special Revenue funds.....	4,355	4,528	11,268	9,341	8,666	2,218	N/A	N/A	N/A	N/A
Debt Service funds.....	83,885	8,118	20,474	27,458	16,834	46,853	N/A	N/A	N/A	N/A
Capital Projects funds.....	133,024	131,026	65,455	54,631	33,527	32,879	N/A	N/A	N/A	N/A
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	1,631,980	2,412,047	1,971,829	2,630,277	2,448,383	2,421,257	N/A	N/A	N/A	N/A
Capital Projects funds (deficit).....	(473,110)	(601,823)	(449,622)	(629,686)	(721,365)	(524,465)	N/A	N/A	N/A	N/A
Restricted reported in:										
Special Revenue funds.....	N/A	N/A	N/A	N/A	N/A	N/A	3,711,994	3,690,354	3,557,116	3,776,739
Committed reported in:										
Special Revenue funds.....	N/A	N/A	N/A	N/A	N/A	N/A	426,391	402,207	374,074	373,185
Debt Service funds.....	N/A	N/A	N/A	N/A	N/A	N/A	17,040	48,400	37,041	9,221
Capital Projects funds.....	N/A	N/A	N/A	N/A	N/A	N/A	239,180	509,618	282,094	423,670
Unassigned reported in:										
Special Revenue funds (deficit).....	N/A	N/A	N/A	N/A	N/A	N/A	(2,837)	(2,955)	(3,167)	-
Capital Projects funds (deficit).....	N/A	N/A	N/A	N/A	N/A	N/A	(20,711)	-	-	-
<b>TOTAL ALL OTHER GOVERNMENTAL FUNDS.....</b>	<b>\$ 4,112,881</b>	<b>\$ 4,680,333</b>	<b>\$ 5,154,851</b>	<b>\$ 5,855,815</b>	<b>\$ 5,574,271</b>	<b>\$ 6,066,071</b>	<b>\$ 4,371,057</b>	<b>\$ 4,647,624</b>	<b>\$ 4,247,158</b>	<b>\$ 4,582,815</b>

# Commonwealth of Pennsylvania

## Financial Trends

Table 3  
Governmental Fund Type Fund Balances  
Last Ten Fiscal Years as of June 30

(Modified accrual basis of accounting-amounts in thousands)

**Source:** The Balance Sheet-Governmental Funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

**Notes:**

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the Governmental Fund caption.

(2)-The Commonwealth implemented GASB Statement 54 for the 2011 fiscal year. To implement GASB Statement 54, it was necessary to reclass 41 Special Revenue funds. 38 of these were reclassified as components of the General Fund, and the remaining three were reclassified as Capital Project funds. This reclassification required the restatement of the General Fund fund balance from the \$284,803 shown in this schedule at the end of the 2010 fiscal year to \$565,223 which was reported at July 1, 2010. Likewise, the fund balance for All Other Governmental Funds was restated from the \$6,066,071 shown at the end of the 2010 fiscal year to \$5,785,651 at July 1, 2010.

(3)-In addition to the restatement described in note (2), existing categories were changed from Reserved and Unreserved fund balances to Nonspendable and Spendable (Restricted, Committed, Assigned and Unassigned) fund balances. Details of the Commonwealth's implementation of GASB Statement 54, including the restatement described in Note (2), are described in Notes A and B of the Commonwealth's June 30, 2011 CAFR.

(4)-The changes described in Notes (2) and (3) above were not retroactively applied. Therefore, governmental fund balances through the 2010 fiscal year are reported as reserved and unreserved, with the 38 funds described above included in the fund balances for All Other Governmental Funds, rather than the General Fund.

(5)-For the 2011 fiscal year, balances in the amount of \$756,141 related to the grant ledgers were reported as restricted. For the 2012 fiscal year, those balances were reported as unassigned/(deficit).

(6)-In the June 30, 2009 CAFR, the beginning fund balance for the Motor License fund (a governmental fund type) was restated and increased by \$30,059 as of July 1, 2008. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2008 plus the change in fund balances shown in Table 4 for the June 30, 2009 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

(7)-As a result of the implementation of GASB 61 described in Note (1) above, the beginning fund balance for the General Fund was restated and decreased by \$6,165 as of July 1, 2012. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2012 plus the change in fund balances shown in Table 4 for the June 30, 2013 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2013. Note B in the Notes to the Financial Statements in the June 30, 2013 CAFR provides additional details on this restatement.

(8)-The Cigarette Fire Safety & Firefighter Protection Fund was initially created and reported as a component of the General Fund in the June 30, 2013 CAFR. Based on criteria established by GASB Statement 54, it was determined that this fund should have been classified as a Special Revenue Fund. Therefore, this reclassification required the restatement of the General Fund fund balance from the \$1,566,010 shown in this schedule at the end of the 2013 fiscal year to \$1,565,668 which was reported at July 1, 2013. Likewise, the fund balance for All Other Governmental Funds was restated from the \$4,247,158 shown at the end of the 2013 fiscal year to \$4,247,500 at July 1, 2013. Note B in the Notes to the Financial Statements provides additional details on this restatement.

# Commonwealth of Pennsylvania

## Financial Trends

Table 4

### Revenues by Source and Expenditures by Function-All Governmental Fund Types

For the Last Ten Fiscal Years Ended June 30

(Modified accrual basis of accounting-amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 (1)	2014
<b>REVENUES BY SOURCE</b>										
Taxes, net of refunds.....	\$ 24,973,125	\$ 27,117,823	\$ 28,548,280	\$ 29,909,880	\$ 27,773,110	\$ 28,229,235	\$ 30,007,455	\$ 30,775,017	\$ 31,722,661	\$ 31,696,451
Licenses and fees.....	1,568,659	1,611,868	1,954,788	1,913,154	1,674,804	1,951,683	1,806,751	2,070,914	2,149,402	2,212,222
Intergovernmental.....	16,585,336	16,347,975	16,891,212	17,911,839	20,619,848	25,256,164	26,029,290	22,804,215	22,683,124	22,543,458
Charges for sales and services.....	4,027,745	2,970,585	1,598,564	1,641,937	1,597,751	1,501,109	1,688,449	1,763,586	1,839,507	1,920,911
Investment income.....	322,199	425,356	769,820	166,522	(306,524)	344,936	326,021	116,945	155,845	270,607
Other (2).....	552,422	576,180	607,201	752,308	715,425	686,069	632,670	709,810	767,463	486,992
<b>TOTAL REVENUES</b> .....	<b>48,029,486</b>	<b>49,049,787</b>	<b>50,369,865</b>	<b>52,295,640</b>	<b>52,074,414</b>	<b>57,969,196</b>	<b>60,490,636</b>	<b>58,240,487</b>	<b>59,318,002</b>	<b>59,130,641</b>
<b>EXPENDITURES BY FUNCTION</b>										
Direction and supportive services .....	2,134,421	2,337,112	1,104,793	1,385,760	1,375,399	1,779,748	1,622,374	1,578,240	1,557,306	1,535,593
Protection of persons and property.....	3,892,572	4,410,969	4,621,119	4,861,363	5,169,377	5,359,792	5,307,198	5,089,854	5,668,261	5,753,876
Health and human services.....	24,118,288	24,103,077	24,293,011	25,141,836	26,549,790	28,340,751	30,435,510	30,662,493	30,371,117	31,773,484
Public education.....	11,400,985	11,731,884	12,439,920	13,076,308	14,019,470	14,492,845	14,836,658	13,363,316	13,858,078	14,108,944
Recreation and cultural enrichment.....	442,783	447,264	544,117	557,387	570,177	506,737	463,501	482,065	474,966	484,137
Economic development.....	1,310,093	1,413,995	1,736,388	1,721,634	1,605,513	1,582,097	1,596,548	1,405,895	1,028,828	1,000,607
Transportation.....	2,607,793	2,448,165	3,089,544	3,292,279	3,321,647	3,833,745	3,129,306	3,264,969	3,342,421	3,467,088
Capital outlay.....	1,805,913	2,082,644	2,121,632	2,273,290	2,812,788	3,144,349	3,248,174	3,389,801	2,915,982	2,836,086
Debt service:										
Principal retirement.....	478,112	492,355	521,773	555,337	598,850	626,090	697,510	711,875	769,390	761,345
Interest and fiscal charges.....	320,887	348,418	361,088	388,722	402,653	406,414	477,751	510,783	531,564	554,574
<b>TOTAL EXPENDITURES</b> .....	<b>48,511,847</b>	<b>49,815,883</b>	<b>50,833,385</b>	<b>53,253,916</b>	<b>56,425,664</b>	<b>60,072,568</b>	<b>61,814,530</b>	<b>60,459,291</b>	<b>60,517,913</b>	<b>62,275,734</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(482,361)</b>	<b>(766,096)</b>	<b>(463,520)</b>	<b>(958,276)</b>	<b>(4,351,250)</b>	<b>(2,103,372)</b>	<b>(1,323,894)</b>	<b>(2,218,804)</b>	<b>(1,199,911)</b>	<b>(3,145,093)</b>
<b>OTHER FINANCING SOURCES/(USES)</b>										
Bonds issued.....	401,816	914,000	1,008,104	913,119	1,064,103	1,900,401	650,000	1,600,303	950,300	1,295,000
Refunding bonds issued.....	1,468,439	-	250,557	194,471	155,642	695,945	-	161,272	361,760	289,946
Premium on bonds/refunding bonds issued.....	197,291	54,420	58,166	61,277	88,921	203,601	37,739	259,314	216,416	203,088
Discount on bonds issued.....	-	-	(157)	-	-	(2,924)	(4,724)	-	-	-
Transfers in.....	1,276,443	1,408,351	1,463,620	1,614,938	1,693,343	2,251,986	2,344,796	1,777,033	1,914,421	1,956,242
Transfers out.....	(1,035,211)	(943,351)	(1,188,779)	(1,318,226)	(1,257,945)	(1,888,368)	(2,062,410)	(1,580,564)	(1,888,173)	(2,059,393)
Payment to refunded bond escrow agent.....	(1,639,510)	-	(253,892)	(203,633)	(166,978)	(795,844)	-	(192,390)	(444,364)	(336,896)
Capital lease and installment purchase obligations.....	1,202	568	1,736	529	3,638	-	111	108,263	1,965	715
<b>TOTAL OTHER FINANCING SOURCES/(USES).....</b>	<b>670,470</b>	<b>1,433,988</b>	<b>1,339,355</b>	<b>1,262,475</b>	<b>1,580,724</b>	<b>2,364,797</b>	<b>965,512</b>	<b>2,133,231</b>	<b>1,112,325</b>	<b>1,348,702</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>\$ 188,109</b>	<b>\$ 667,892</b>	<b>\$ 875,835</b>	<b>\$ 304,199</b>	<b>\$ (2,770,526)</b>	<b>\$ 261,425</b>	<b>\$ (358,382)</b>	<b>\$ (85,573)</b>	<b>\$ (87,586)</b>	<b>\$ (1,796,391)</b>
Debt Service as a Percentage of Noncapital Expenditures (3).....	1.71%	1.76%	1.81%	1.85%	1.87%	1.81%	2.01%	2.14%	2.26%	2.21%

**Source:** The Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

**Notes:**

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within this table. This change was not retroactively applied to the previous fiscal years.

(2)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.

(3)-Ratio is calculated as Principal Retirement plus Interest and Fiscal Charges expenditures divided by Total Expenditures less Capital Outlay expenditures. There are no expenditures for capitalized assets contained within the functional expenditure categories.



**Commonwealth of Pennsylvania**  
**Revenue Capacity-Personal Income Tax**  
Table 5  
Personal Income by Industry  
For the Last Ten Calendar Years

(Amounts in millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>TOTAL PERSONAL INCOME BY INDUSTRY (1)(2)</b>										
<b>Workplace Earnings:</b>										
<b>Farm Earnings.....</b>	\$ 1,536	\$ 1,389	\$ 1,108	\$ 1,284	\$ 1,186	\$ 873	\$ 1,135	\$ 1,575	\$ 1,632	\$ 1,477
<b>Nonfarm Earnings:</b>										
<b>Private earnings:</b>										
Forestry, fishing/hunting, agriculture.....	423	429	477	439	424	413	494	451	526	542
Mining.....	1,751	2,178	2,506	2,269	3,332	2,247	3,044	4,434	5,037	5,188
Utilities.....	2,854	2,726	2,846	2,929	3,137	2,875	2,959	3,260	3,116	3,223
Construction.....	20,632	21,768	23,670	23,321	22,341	20,109	20,253	21,279	22,540	23,433
Manufacturing.....	41,741	41,971	43,168	43,219	43,658	39,101	39,605	41,332	42,267	42,487
Wholesale trade.....	15,751	16,771	18,039	19,079	19,217	18,187	18,520	19,730	20,171	20,573
Retail trade.....	21,103	21,570	22,128	22,315	21,517	21,363	21,864	22,601	23,125	23,735
Transportation and warehousing.....	11,915	12,068	12,378	12,835	12,704	12,436	12,710	13,769	14,315	14,760
Broadcasting/publishing/internet technology.....	10,751	11,314	11,286	12,247	14,835	14,878	14,978	14,334	15,217	15,651
Finance and insurance.....	21,484	22,249	23,677	24,076	23,692	24,165	24,938	25,567	26,867	27,773
Real estate and rental and leasing.....	5,643	5,550	5,351	4,496	4,853	4,325	4,811	5,742	6,328	6,666
Professional and technical services.....	26,859	28,739	31,072	33,149	36,044	34,639	34,335	36,216	38,064	39,259
Management of companies and enterprises.....	8,296	9,491	10,659	13,108	13,037	13,409	13,671	15,383	16,982	17,805
Administrative services.....	9,888	10,294	10,884	11,424	11,691	11,017	11,661	12,581	12,917	13,471
Educational services.....	8,552	8,895	9,503	9,934	10,569	11,419	11,887	12,372	12,759	13,038
Health care and social assistance.....	39,431	40,973	43,821	45,720	48,950	50,909	52,904	54,573	55,780	57,581
Arts, entertainment, and recreation.....	3,232	3,272	3,447	3,506	3,578	3,622	3,859	4,222	4,438	4,494
Accommodation and food services.....	7,786	8,011	8,296	8,780	8,738	8,524	8,806	9,332	9,906	10,353
Other services, except public administration.....	12,523	13,214	13,780	13,499	13,213	13,179	13,382	13,584	14,268	14,799
<b>Total private earnings.....</b>	<b>270,615</b>	<b>281,483</b>	<b>296,988</b>	<b>306,345</b>	<b>315,530</b>	<b>306,817</b>	<b>314,681</b>	<b>330,762</b>	<b>344,623</b>	<b>354,831</b>
<b>Government:</b>										
Federal, civilian.....	8,020	8,398	8,645	8,911	9,136	9,479	9,915	9,906	9,777	9,521
Military.....	1,426	1,574	1,528	1,493	1,577	1,693	1,676	1,547	1,518	1,470
State government.....	10,461	10,581	11,208	11,921	12,179	12,547	12,954	13,048	12,905	13,147
Local government.....	27,150	27,779	29,028	30,016	31,275	32,063	33,437	33,135	32,470	33,659
<b>Total government earnings.....</b>	<b>47,057</b>	<b>48,332</b>	<b>50,409</b>	<b>52,341</b>	<b>54,167</b>	<b>55,782</b>	<b>57,982</b>	<b>57,636</b>	<b>56,670</b>	<b>57,797</b>
<b>Total nonfarm earnings.....</b>	<b>317,672</b>	<b>329,815</b>	<b>347,397</b>	<b>358,686</b>	<b>369,697</b>	<b>362,599</b>	<b>372,663</b>	<b>388,398</b>	<b>401,293</b>	<b>412,628</b>
<b>Total workplace earnings.....</b>	<b>319,208</b>	<b>331,204</b>	<b>348,505</b>	<b>359,970</b>	<b>370,883</b>	<b>363,472</b>	<b>373,798</b>	<b>389,973</b>	<b>402,925</b>	<b>414,105</b>
<b>Other earnings/deductions (3).....</b>	<b>111,053</b>	<b>115,953</b>	<b>128,102</b>	<b>141,382</b>	<b>148,308</b>	<b>151,257</b>	<b>155,403</b>	<b>168,170</b>	<b>178,847</b>	<b>176,066</b>
<b>Total personal income.....</b>	<b>\$ 430,261</b>	<b>\$ 447,157</b>	<b>\$ 476,607</b>	<b>\$ 501,352</b>	<b>\$ 519,191</b>	<b>\$ 514,729</b>	<b>\$ 529,201</b>	<b>\$ 558,143</b>	<b>\$ 581,772</b>	<b>\$ 590,171</b>
<b>Total personal income subject to the direct personal income tax rate (4)(5).....</b>	<b>\$ 237,961</b>	<b>\$ 250,921</b>	<b>\$ 266,800</b>	<b>\$ 288,043</b>	<b>\$ 317,393</b>	<b>\$ 314,872</b>	<b>\$ 294,893</b>	<b>\$ 255,040</b>	<b>N/A</b>	<b>N/A</b>
<b>Direct personal income tax rate.....</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>

**Sources:**

Personal income by industry is provided by the Bureau of Economic Analysis, US Department of Commerce ([www.bea.gov/index.htm](http://www.bea.gov/index.htm)) through estimates released September 2014. Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2011 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2012-13). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

(1)-Various calendar years differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2013. The amounts shown in the prior year were based on estimates released by the Bureau of Economic Analysis, U.S. Department of Commerce in September 2013. These estimates have subsequently been revised (as provided in the September 2014 release).

(2)-Personal income by industry is reported under the North American Industry Classification System.

(3)-Other earnings/deductions include dividends, interest and miscellaneous employee/employer contributions/deductions.

(4)-Total personal income subject to the direct personal income tax rate consists of taxable compensation, interest, dividends, net profits and other income, prior to the application of various tax credits. This amount is self-assessed by the taxpayer on their tax returns for the tax year. Due to the complexity and length of the tax return filing and review process, the total compilation is not yet available for release by the Pennsylvania Department of Revenue for the 2012 and 2013 tax years.

(5)-This information is presented by tax year, rather than by calendar year, as the personal income by industry is presented. An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). The information presented is based on those returns of the filers whose tax year ended during the applicable calendar year.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Personal Income Tax**

Table 6

Personal Income Tax Filers and Liability by Income Level  
 2002 and 2011 Tax Years

2002 Tax Year (1)(2)(3)					2011 Tax Year (1)(2)(3)				
Liability amounts in thousands									
Taxable Income Level	Number of Filers	Percentage of Total (6)	Personal Income Tax Liability(4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total (6)	Personal Income Tax Liability(4)	Percentage of Total
\$0	68,287	1.20%	\$ -	0.00%	\$0	185,798	3.06%	\$ -	0.00%
\$1-999	406,172	7.16%	1,465	0.03%	\$1-999	437,005	7.19%	1,564	0.02%
\$1,000-2,999	452,608	7.98%	13,497	0.26%	\$1,000-2,999	390,327	6.42%	13,731	0.18%
\$3,000-4,999	335,923	5.92%	24,354	0.46%	\$3,000-4,999	296,340	4.87%	24,866	0.32%
\$5,000-6,999	265,329	4.68%	30,876	0.59%	\$5,000-6,999	246,745	4.06%	32,964	0.42%
\$7,000-8,999	216,770	3.82%	35,062	0.66%	\$7,000-8,999	207,735	3.42%	38,362	0.49%
\$9,000-10,999	188,036	3.32%	39,622	0.75%	\$9,000-10,999	189,958	3.12%	44,032	0.56%
\$11,000-12,999	170,946	3.02%	44,847	0.85%	\$11,000-12,999	172,097	2.83%	49,655	0.63%
\$13,000-14,999	159,284	2.81%	50,462	0.96%	\$13,000-14,999	162,972	2.68%	55,948	0.71%
\$15,000-16,999	155,169	2.74%	57,926	1.10%	\$15,000-16,999	151,739	2.50%	61,105	0.78%
\$17,000-18,999	150,107	2.65%	64,686	1.23%	\$17,000-18,999	140,524	2.31%	64,895	0.83%
\$19,000-21,999	217,576	3.84%	108,830	2.06%	\$19,000-21,999	202,486	3.33%	109,394	1.40%
\$22,000-24,999	207,188	3.65%	121,003	2.29%	\$22,000-24,999	193,405	3.18%	121,883	1.56%
\$25,000-29,999	314,321	5.54%	217,203	4.12%	\$25,000-29,999	298,517	4.91%	223,466	2.85%
\$30,000-34,999	274,043	4.83%	226,080	4.29%	\$30,000-34,999	268,878	4.42%	240,854	3.08%
\$35,000-39,999	239,386	4.22%	229,199	4.35%	\$35,000-39,999	240,029	3.95%	250,440	3.20%
\$40,000-49,999	402,786	7.10%	463,879	8.80%	\$40,000-49,999	400,545	6.59%	501,497	6.41%
\$50,000-74,999	676,919	11.94%	1,070,066	20.29%	\$50,000-74,999	701,159	11.53%	1,211,928	15.48%
\$75,000-99,999	344,668	6.08%	758,318	14.38%	\$75,000-99,999	432,860	7.12%	1,052,848	13.45%
\$100,000-149,999	251,813	4.44%	740,399	14.04%	\$100,000-149,999	413,881	6.81%	1,381,285	17.64%
\$150,000 or more	172,432	3.04%	975,748	18.50%	(5) \$150,000-249,999	218,595	3.59%	1,051,436	13.43%
					(5) \$250,000 or more	129,241	2.13%	1,297,576	16.57%
Total (6)	<u>5,669,763</u>	100.00%	<u>\$ 5,273,522</u>	100.00%	Total	<u>6,080,836</u>	100.00%	<u>\$ 7,829,729</u>	100.00%

**Sources:**

For the 2002 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2011 tax year, the number of filers per taxable income level and the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) were obtained from the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2012-13). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest personal income tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's personal income tax revenue.
- (2)-An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year ended during the the 2002 or 2011 calendar years.
- (3)-Due to the complexity and length of the tax return filing and review process, the total compilation of personal income subject to the direct tax rate per income level was not yet available for release by the Pennsylvania Department of Revenue for the 2012 and 2013 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 2002 and 2011 tax years are presented as an alternative comparison.
- (4)-The estimated total personal income tax liability is calculated by multiplying the total personal income (as self-assessed by the individual tax filer) for the income level by the tax rate applicable during the tax year. The estimated liability is presented before any applicable tax credits were applied. For the 2002 tax year, the direct tax rate in effect was 2.80% for all income levels. Beginning with the 2004 tax year, the rate increased to 3.07%. This rate has been in effect for all subsequent tax years.
- (5)-Beginning with the 2009 tax year, the caption "\$150,000 or more" has been split into two captions: "\$150,000-249,999" and "\$250,000 or more". The amounts for the 2002 tax year are reported within the original caption; whereas the amounts reported in the 2011 tax year are reported within the two new captions.
- (6)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania

Revenue Capacity-Sales Tax

Table 7

Estimated Taxable Sales by Industry Classification of the Vendor  
For the Last Ten Fiscal Years Ended June 30

(Amounts in thousands)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(3)
<b>Estimated Taxable Sales by Industry (1)(2)</b>										
Manufacturing.....	\$ 6,386,100	\$ 6,858,033	\$ 7,107,483	\$ 7,083,150	\$ 7,199,717	\$ 6,952,853	\$ 6,310,433	\$ 7,182,245	\$ 7,426,068	\$ 7,391,732
Public utilities.....	4,229,717	4,473,817	4,667,117	4,816,533	4,763,633	4,832,233	4,750,250	5,002,202	4,680,907	4,492,653
Wholesale trade.....	7,987,583	9,112,350	11,407,750	12,320,033	12,239,917	10,215,170	10,492,100	11,590,333	12,419,575	12,316,835
Building materials.....	8,209,967	8,719,850	9,607,267	9,263,467	8,908,483	8,422,183	8,140,533	8,714,365	8,878,250	9,039,222
General merchandise.....	18,383,833	18,243,083	18,766,300	19,275,267	18,959,267	19,171,045	18,601,350	19,740,610	19,354,965	19,879,167
Food and beverage stores.....	5,770,967	5,764,533	5,859,017	6,090,033	6,023,083	6,197,422	6,416,383	6,437,433	6,440,322	6,580,377
Automotive dealers.....	3,487,217	3,691,150	3,761,500	3,865,533	3,834,950	3,709,158	3,753,567	3,997,238	4,157,458	4,122,673
Furniture and appliances.....	5,844,450	6,338,250	6,148,383	6,334,000	6,018,133	5,572,460	4,931,917	5,336,590	5,376,648	5,285,463
Other retail stores.....	5,212,517	5,376,183	5,529,683	5,802,417	5,764,733	5,598,740	5,580,450	6,095,245	6,408,673	6,447,917
Agriculture and mining.....	559,400	644,983	717,950	726,367	666,967	685,577	773,133	838,863	930,587	934,048
Construction.....	2,342,833	2,742,150	3,010,383	3,077,033	3,050,933	2,880,480	2,595,217	2,953,357	3,203,795	3,175,267
Service.....	35,164,650	37,378,583	39,336,950	41,230,817	41,914,783	40,875,482	40,899,250	43,579,387	43,694,423	45,039,627
Transportation, delivery, and warehousing..	312,250	330,783	420,617	363,450	374,133	356,542	365,150	371,315	420,053	472,217
Government.....	278,833	296,717	294,600	289,767	211,100	285,217	383,150	411,452	362,387	305,027
Unclassified.....	2,228,010	1,472,017	1,442,950	1,532,250	1,627,583	2,036,060	1,363,333	1,254,633	1,042,267	1,132,720
Motor vehicle.....	21,144,925	20,506,470	19,484,594	19,481,964	18,346,914	15,992,425	16,595,200	17,714,378	19,343,573	19,459,690
Liquor sales.....	1,265,798	1,383,587	1,341,449	1,627,333	1,704,846	1,808,735	1,868,083	1,950,641	2,064,488	2,153,927
<b>Total sales tax estimated base (4).....</b>	<b>\$ 128,809,049</b>	<b>\$ 133,332,540</b>	<b>\$ 138,903,993</b>	<b>\$ 143,179,414</b>	<b>\$ 141,609,177</b>	<b>\$ 135,591,782</b>	<b>\$ 133,819,500</b>	<b>\$ 143,170,287</b>	<b>\$ 146,204,439</b>	<b>\$ 148,228,560</b>
<b>Total direct sales tax rate.....</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>

**Sources:**

Sales tax remittances by industry and total direct sales tax rate (both used in the calculation of estimated taxable sales by industry) are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2013 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2012-13). The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

- (1)-Estimated taxable sales are calculated based on sales tax remittances (made by vendors with their tax returns processed during the fiscal year) divided by the direct sales tax rate of 6%.
- (2)-Estimated taxable sales are organized by major industrial activity of the vendor and do not represent sales by product type. These are presented based on the North American Industry Classification System.
- (3)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2014 fiscal year. Therefore, fiscal years 2004 through 2013 are presented as an alternative comparison.
- (4)-Totals may not foot due to rounding.

**Commonwealth of Pennsylvania**

**Revenue Capacity-Sales Tax**

Table 8

Sales Tax Remittances by Major Industry Classification

Fiscal Years Ended June 30, 2004 and June 30, 2013

(Amounts in thousands)

June 30, 2004 (1)(2)			June 30, 2013 (1)(2)		
Industry (4)	Sales(3) Tax Remittances Liability	Percentage of Total	Industry (4)	Sales(3) Tax Remittances Liability	Percentage of Total
Manufacturing.....	\$ 383,166	4.96%	Manufacturing.....	\$ 443,504	4.99%
Public utilities.....	253,783	3.28%	Public utilities.....	269,559	3.03%
Wholesale trade.....	479,255	6.20%	Wholesale trade.....	739,010	8.31%
Building materials.....	492,598	6.37%	Building materials.....	542,353	6.10%
General merchandise.....	1,103,030	14.27%	General merchandise.....	1,192,750	13.41%
Food and beverage stores.....	346,258	4.48%	Food and beverage stores.....	394,823	4.44%
Automotive dealers.....	209,233	2.71%	Automotive dealers.....	247,360	2.78%
Furniture and appliances.....	350,667	4.54%	Furniture and appliances.....	317,128	3.57%
Other retail stores.....	312,751	4.05%	Other retail stores.....	386,875	4.35%
Agriculture and mining.....	33,564	0.43%	Agriculture and mining.....	56,043	0.63%
Construction.....	140,570	1.82%	Construction.....	190,516	2.14%
Service.....	2,109,879	27.30%	Service.....	2,702,378	30.39%
Transportation, delivery, and warehousing.....	18,735	0.24%	Transportation, delivery, and warehousing.....	28,333	0.32%
Government.....	16,730	0.22%	Government.....	18,302	0.21%
Unclassified.....	133,681	1.73%	Unclassified.....	67,963	0.76%
Motor vehicle.....	1,268,695	16.42%	Motor vehicle.....	1,167,581	13.13%
Liquor sales.....	75,948	0.98%	Liquor sales.....	129,236	1.45%
Total (5).....	<u>\$ 7,728,543</u>	100.00%	Total (5).....	<u>\$ 8,893,714</u>	100.00%
Sales Tax Licenses (6).....	247,873		Sales Tax Licenses (6).....	233,538	

**Sources:**

Sales tax remittances by industry and the number of sales tax licenses are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2013 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2012-13). This publication was obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest sales tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's sales tax revenue.
- (2)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2014 fiscal year. Therefore, fiscal years 2004 and 2013 are presented as an alternative comparison.
- (3)-Sales tax liability is based on sales tax remittances made with tax returns processed during the fiscal year. The direct sales tax rate applicable to both years is 6%.
- (4)-Sales tax remittances are organized by major industrial activity of the vendor and does not represent sales by product type. Both years are presented using the North American Industry Classification System (N.A.I.C.S.) Group.
- (5)-Totals may not foot due to rounding.
- (6)-The Commonwealth does not maintain a list of sales tax filers by the N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the ten largest sales tax filers. Therefore, the number of sales tax licenses is presented to indicate the potential number of filers during the applicable fiscal year.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Corporate Tax**

Table 9  
Corporate Net Income Tax  
For the Last Ten Tax Years

	2002	2003	2004	2005	2006	2007	2008	2009 (6)	2010 (6)	2011 (6)
<b>ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)</b>										
Corporate Tax Report Compilation (amounts in thousands).....	\$ 13,280,711	\$ 13,446,684	\$ 17,648,755	\$ 20,312,660	\$ 23,247,419	\$ 20,787,641	\$ 19,652,968	\$ 17,631,632	\$ 19,139,139	\$ 18,151,414
<b>NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)</b>										
\$0.....	102,333	97,391	95,306	94,827	94,119	97,811	79,113	77,698	75,245	72,477
\$1-300.....	10,832	10,625	10,096	9,830	8,668	8,152	7,492	6,978	6,576	6,458
\$301-500.....	2,875	2,694	2,660	2,662	2,319	2,235	2,035	1,925	1,897	1,806
\$501-1,000.....	4,345	4,279	4,119	3,981	3,417	3,375	3,119	2,868	2,884	2,793
\$1,001-5,000.....	10,665	10,173	10,355	10,277	8,577	8,367	7,742	7,051	7,011	6,586
\$5,001-10,000.....	3,456	3,301	3,596	3,600	3,334	3,168	2,803	2,490	2,469	2,500
\$10,001-25,000.....	2,760	2,695	2,863	3,022	2,884	2,894	2,594	2,338	2,362	2,251
\$25,001-50,000.....	1,319	1,384	1,489	1,550	1,582	1,519	1,424	1,291	1,397	1,274
\$50,001-100,000.....	945	943	1,086	1,208	1,244	1,190	1,157	1,020	1,058	992
\$100,001-250,000.....	763	797	954	1,005	1,082	1,050	992	865	949	911
\$250,001-500,000.....	309	395	443	475	520	499	471	448	445	368
\$500,001-1,000,000.....	178	177	264	294	344	311	278	279	290	256
>\$1,000,000.....	192	220	262	307	341	326	304	267	275	228
<b>Total corporate net income tax filers (4)(5).....</b>	<b>140,972</b>	<b>135,074</b>	<b>133,493</b>	<b>133,038</b>	<b>128,431</b>	<b>130,897</b>	<b>109,524</b>	<b>105,518</b>	<b>102,858</b>	<b>98,900</b>
<b>Total direct corporate net income tax rate.....</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>

**Sources:**  
Information provided by the Pennsylvania Department of Revenue. The number of filers by corporate net income tax liability range for the 2009-2011 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2012-13). The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**  
(1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax is being phased out so that the last year for which a tax will apply will be the 2016 tax year. This table presents the positive corporate net income tax base, as well as the number of filers associated with this tax by liability range. It also presents the statutory corporate net income tax rate.  
(2)-The CNIT is based on separate company Federal taxable income and includes a number of additions to/subtractions from that base. This table shows the compilation of all reported taxable income (Federal income adjusted to the PA base and then apportioned). Many corporations report negative federal taxable income. In addition, the net operating loss deductions that Pennsylvania allows reduce otherwise profitable corporations' incomes below \$0.  
(3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest corporate net income tax filers. Therefore, the schedule of the number of filers by corporate net income tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's corporate net income tax revenue. Those filers that report negative state taxable income are reported in the tax liability range of \$0, which accounts for the large number of filers within that range.  
(4)-Due to the complexity and length of the tax return filing and review process, the total compilation of corporate net income subject to the direct corporate tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2012 and 2013 tax years. Therefore, tax years 2002 through 2011 are presented as an alternative comparison.  
(5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the associated calendar years.  
(6)-For tax years 2002 through 2009, the amounts presented are actual. The amounts presented for the 2009 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2013 fiscal year, since that amount was an estimate. For the 2010 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2013 CAFR. And for the 2011 tax year, the amounts presented are an estimate.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Corporate Tax**

Table 10  
 Capital Stock/Foreign Franchise Tax  
 For the Last Ten Tax Years

	2002	2003	2004	2005	2006	2007	2008	2009 (6)	2010 (6)	2011 (6)
<b>CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)</b>										
Apportioned Capital Stock Value Compilation (expressed in thousands).....	\$ 137,650,000	\$ 147,450,000	\$ 157,310,000	\$ 167,566,590	\$ 189,755,093	\$ 207,628,892	\$ 230,292,556	\$ 248,089,965	\$ 258,979,239	\$ 298,810,410
<b>NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)</b>										
\$0-300.....	224,961	237,922	250,253	262,888	278,843	301,231	309,482	316,168	322,302	329,037
\$301-500.....	7,282	7,482	7,973	8,853	10,198	10,497	11,397	11,431	11,281	11,613
\$501-1,000.....	12,580	12,911	13,730	14,778	15,754	15,688	15,935	16,168	15,793	16,177
\$1,001-5,000.....	28,484	29,532	30,487	30,883	30,246	28,604	25,974	25,903	26,138	27,002
\$5,001-10,000.....	7,139	7,440	7,519	7,435	7,293	6,617	5,694	5,786	5,945	5,944
\$10,001-25,000.....	5,348	5,603	5,876	5,708	5,401	5,015	4,165	4,218	4,353	4,430
\$25,001-50,000.....	2,171	2,244	2,402	2,284	2,196	2,020	1,691	1,714	1,767	1,799
\$50,001-100,000.....	1,140	1,205	1,305	1,264	1,213	1,113	887	951	1,022	996
\$100,001-250,000.....	711	793	838	816	769	675	515	552	594	597
\$250,001-500,000.....	274	263	312	282	278	225	176	195	195	191
\$500,001-1,000,000.....	112	147	144	142	126	113	81	87	99	108
>\$1,000,000.....	97	98	106	101	93	81	73	83	84	78
<b>Total capital stock and franchise tax filers (4)(5).....</b>	<b>290,299</b>	<b>305,640</b>	<b>320,945</b>	<b>335,434</b>	<b>352,410</b>	<b>371,879</b>	<b>376,070</b>	<b>383,256</b>	<b>389,573</b>	<b>397,972</b>
<b>Total direct capital stock and franchise tax rate.....</b>	<b>7.24 mills</b>	<b>7.24 mills</b>	<b>6.99 mills</b>	<b>5.99 mills</b>	<b>4.89 mills</b>	<b>3.89 mills</b>	<b>2.89 mills</b>	<b>2.89 mills</b>	<b>2.89 mills</b>	<b>2.89 mills</b>

**Sources:**

Information provided by the Pennsylvania Department of Revenue. The number of filers by capital stock/foreign franchise tax liability range for the 2009-2011 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2012-13). The direct capital stock/foreign franchise tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

- (1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax is being phased out so that the last year for which a tax will apply will be the 2016 tax year. This table presents the capital stock/foreign franchise apportioned tax base, as well as the number of filers associated with this tax by filing class. It also presents the statutory capital stock/foreign franchise tax rate.
- (2)-The CSFT is based on a fixed formula involving net worth and average book income. This schedule shows the compilation of all reported taxable capital stock value, as reported by corporate taxpayers required to file a tax return with the Commonwealth.
- (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest capital stock/foreign franchise tax filers. Therefore, the schedule of the number of filers by capital stock/foreign franchise tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's capital stock/foreign franchise tax revenue.
- (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of all reported taxable capital stock value subject to the statutory capital stock/foreign franchise tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2012 and 2013 tax years. Therefore, tax years 2002 through 2011 are presented as an alternative comparison.
- (5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the the associated calendar years.
- (6)-For tax years 2002 through 2009, the amounts presented are actual. The amounts presented for the 2009 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2013 fiscal year, since that amount was an estimate. For the 2010 tax year, the amounts presented are revised estimates from the amounts presented in the June 30, 2013 CAFR. And for the 2011 tax year, the amounts presented are an estimate.

## Commonwealth of Pennsylvania

## Debt Capacity

Table 11

Outstanding Debt and Outstanding Debt Ratios

For the Last Ten Fiscal Years Ended June 30

(Expressed in Thousands, Except Debt per Capita)

<b>PRIMARY GOVERNMENT (1)(2)(3)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Governmental activities:</b>										
General obligation bonds.....	\$ 7,150,667	\$ 7,657,674	\$ 8,245,673	\$ 8,632,609	\$ 9,150,362	\$ 10,498,794	\$ 10,443,190	\$ 11,538,799	\$ 11,821,622	\$ 12,674,929
Capital leases/installment purchase obligations.....	47,276	42,059	40,649	37,646	36,730	31,958	26,907	129,757	125,020	117,961
Other financing obligations.....	90,000	82,500	76,500	70,500	67,500	67,500	67,500	334,230	324,860	315,620
<b>Total governmental</b> .....	<b>7,287,943</b>	<b>7,782,233</b>	<b>8,362,822</b>	<b>8,740,755</b>	<b>9,254,592</b>	<b>10,598,252</b>	<b>10,537,597</b>	<b>12,002,786</b>	<b>12,271,502</b>	<b>13,108,510</b>
<b>Business-type activities:</b>										
Demand revenue bonds payable.....	-	-	-	-	-	-	-	-	300,000	166,635
Notes payable.....	-	-	-	-	-	-	-	-	199	-
Revenue bonds payable.....	-	-	-	-	-	-	-	-	4,635,760	4,381,432
Capital leases/installment purchase obligations.....	-	28,259	17,375	5,939	-	-	-	-	-	-
<b>Total business-type</b> .....	<b>-</b>	<b>28,259</b>	<b>17,375</b>	<b>5,939</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,935,959</b>	<b>4,548,067</b>
<b>TOTAL PRIMARY GOVERNMENT</b> .....	<b>\$ 7,287,943</b>	<b>\$ 7,810,492</b>	<b>\$ 8,380,197</b>	<b>\$ 8,746,694</b>	<b>\$ 9,254,592</b>	<b>\$ 10,598,252</b>	<b>\$ 10,537,597</b>	<b>\$ 12,002,786</b>	<b>\$ 17,207,461</b>	<b>\$ 17,656,577</b>

**Debt as a Percentage of Personal Income (4)(5).....** 1.69% 1.75% 1.76% 1.74% 1.78% 2.06% 1.99% 2.15% 2.96% 2.99%

**Amount of Debt per Capita (4)(5).....** \$ 587 \$ 627 \$ 670 \$ 696 \$ 734 \$ 837 \$ 829 \$ 942 \$ 1,348 \$ 1,382

**Source:** The Commonwealth's Comprehensive Annual Financial Report (CAFR), as presented for the applicable fiscal year. For fiscal years 2005-2012, the information can be found in the Statement of Net Assets. Beginning with the 2013 fiscal year, the information can be found in the Statement of Net Position.

**Notes:**

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. Therefore, their outstanding debt is now reported within the Business-Type Activities caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the Governmental Activities caption. These changes have not been retroactively applied to prior fiscal years.

(2)-Each caption includes the reported current and noncurrent amounts of the outstanding debt.

(3)-Details on the Commonwealth's total outstanding debt for June 30, 2014 can be found in Note K for Governmental Activities and Note F for Business-Type Activities.

(4)-See Table 15 for summarized totals for personal income and population data that were used in the calculations of these ratios. Personal income detail is presented in Table 5. As detailed in Table 5 or 15 (as appropriate), the personal income and population data have changed in several calendar years from what was presented in those tables in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2013 fiscal year. As a result, the calculated ratios based on the data from those calendar years may differ from what was presented in this table in the June 30, 2013 CAFR.

(5)-Debt ratios use total outstanding debt which is presented by fiscal year ended June 30, while the personal income and population data used in the calculations are presented by calendar year.

## *Commonwealth of Pennsylvania*

### **Debt Capacity**

Table 12

Ratios of General Obligation Bonded Debt Outstanding

Last Ten Fiscal Years Ended as of June 30

(Amounts in thousands)

<b>Fiscal Year</b>	<b>(1) General Obligation Bonds</b>	<b>(2) Percentage of Actual Tax Revenues</b>	<b>(3) Per Capita</b>
<b>2005</b>	\$ 7,150,667	28.64%	\$ 569
<b>2006</b>	7,657,674	27.87%	614
<b>2007</b>	8,245,673	28.78%	657
<b>2008</b>	8,632,609	28.69%	685
<b>2009</b>	9,150,362	33.00%	724
<b>2010</b>	10,498,794	37.07%	825
<b>2011</b>	10,443,190	35.12%	820
<b>2012</b>	11,538,799	37.68%	902
<b>2013</b>	11,821,622	37.20%	923
<b>2014</b>	12,674,929	39.69%	992

#### **Sources:**

Information was obtained from the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year. General obligation bonds can be found in the Statement of Net Position, and the tax revenues used in the percentage of actual tax revenues can be found in the Statement of Activities.

#### **Notes:**

(1)-General obligation bonds amounts include the reported current and noncurrent amounts.

(2)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenues. Therefore, the total taxes shown in the Governmental Activities section of the Statement of Activities are used in this calculation.

(3)-General obligation bond amounts used in the per capita calculation are presented as of the fiscal year end. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year.



Commonwealth of Pennsylvania

Debt Capacity

Table 13

Computation of Legal Debt Margin

As of August 31 for the Last Ten Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 26,141,233,164	\$ 27,536,515,720	\$ 29,300,406,649	\$ 31,088,316,012	\$ 32,044,066,363	\$ 32,604,981,495	\$ 33,234,462,394	\$ 33,742,407,887	\$ 34,173,780,183	\$ 35,048,322,844
Constitutional factor..... x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75
Constitutional debt limit for debt incurred without the approval of the electors (A)...	45,747,158,037	48,188,902,510	51,275,711,636	54,404,553,021	56,077,116,135	57,058,717,616	58,160,309,190	59,049,213,802	59,804,115,320	61,334,564,977
Less outstanding net debt (non-electorate approved).....	6,146,947,312	6,399,655,454	6,839,080,189	7,068,178,522	7,497,271,800	8,553,447,438	8,520,640,376	9,194,240,832	9,331,058,456	9,960,500,105
<b>Legal debt margin (B).....</b>	<b>\$ 39,600,210,725</b>	<b>\$ 41,789,247,056</b>	<b>\$ 44,436,631,447</b>	<b>\$ 47,336,374,499</b>	<b>\$ 48,579,844,335</b>	<b>\$ 48,505,270,178</b>	<b>\$ 49,639,668,814</b>	<b>\$ 49,854,972,970</b>	<b>\$ 50,473,056,864</b>	<b>\$ 51,374,064,872</b>
<b>Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....</b>	<b>13.44%</b>	<b>13.28%</b>	<b>13.34%</b>	<b>12.99%</b>	<b>13.37%</b>	<b>14.99%</b>	<b>14.65%</b>	<b>15.57%</b>	<b>15.60%</b>	<b>16.24%</b>

Source: The Governor's Budget Office

Notes:

(A)-The formula for the legal debt limit is contained in Article VIII, Section 7(a) of the Pennsylvania Constitution, which provides:

No debt shall be incurred by or on behalf of the Commonwealth except by law and in accordance with the provisions of this section.

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.

(2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

# Commonwealth of Pennsylvania

## Demographic and Economic

Table 14

Employment by Nonfarm Related Industry

For the Last Ten Calendar Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Employment by nonfarm related industry (1)(2):</b>										
<b>Total nonfarm:</b>										
<b>Private earnings:</b>										
<b>Goods producing:</b>										
Natural resources and mining.....	18,700	19,700	20,300	21,100	22,200	22,300	26,600	33,800	37,000	35,800
Construction.....	250,200	255,700	261,000	262,300	254,600	224,600	215,900	222,800	225,800	226,400
Manufacturing.....	690,700	679,400	670,400	659,100	643,800	574,100	560,000	565,000	567,200	563,300
<b>Total goods producing.....</b>	<b>959,600</b>	<b>954,800</b>	<b>951,700</b>	<b>942,500</b>	<b>920,600</b>	<b>821,000</b>	<b>802,500</b>	<b>821,600</b>	<b>830,000</b>	<b>825,500</b>
<b>Service providing:</b>										
Trade.....	1,113,600	1,120,300	1,125,800	1,133,900	1,125,900	1,080,800	1,079,200	1,091,100	1,099,600	1,102,500
Information.....	112,100	109,500	108,200	107,500	105,900	99,600	93,300	91,100	90,300	88,400
Financial activities .....	336,200	335,700	335,000	332,800	329,800	318,400	311,000	308,600	309,500	312,500
Professional and business services.....	638,000	660,500	685,300	705,700	709,400	674,800	689,900	716,800	733,000	749,000
Education and health services.....	994,000	1,024,200	1,047,600	1,067,900	1,093,200	1,111,000	1,125,500	1,141,300	1,153,100	1,157,400
Leisure and hospitality.....	477,300	484,800	491,800	499,900	503,300	494,300	500,500	511,200	524,100	533,300
Other services.....	263,700	261,500	258,400	255,700	254,300	249,900	250,300	253,000	254,000	252,800
<b>Total service providing.....</b>	<b>3,934,900</b>	<b>3,996,500</b>	<b>4,052,100</b>	<b>4,103,400</b>	<b>4,121,800</b>	<b>4,028,800</b>	<b>4,049,700</b>	<b>4,113,100</b>	<b>4,163,600</b>	<b>4,195,900</b>
<b>Total private earnings.....</b>	<b>4,894,500</b>	<b>4,951,300</b>	<b>5,003,800</b>	<b>5,045,900</b>	<b>5,042,400</b>	<b>4,849,800</b>	<b>4,852,200</b>	<b>4,934,700</b>	<b>4,993,600</b>	<b>5,021,400</b>
<b>Government.....</b>	<b>752,400</b>	<b>753,600</b>	<b>755,000</b>	<b>754,800</b>	<b>759,700</b>	<b>768,200</b>	<b>770,600</b>	<b>751,400</b>	<b>732,300</b>	<b>721,100</b>
<b>Total nonfarm.....</b>	<b>5,646,900</b>	<b>5,704,900</b>	<b>5,758,800</b>	<b>5,800,700</b>	<b>5,802,100</b>	<b>5,618,000</b>	<b>5,622,800</b>	<b>5,686,100</b>	<b>5,725,900</b>	<b>5,742,500</b>

**Source:** Information obtained from the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis website ([www.paworkstats.state.pa.us](http://www.paworkstats.state.pa.us)).

### Notes:

(1)-Due to statutory requirements (confidentiality provisions), the Commonwealth can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.

(2)-Various calendar years may differ from the totals presented in the same table in the June 30, 2013 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

**Commonwealth of Pennsylvania**

**Demographic and Economic**

Table 15

Population and Per Capita Personal Income

For the Last Ten Calendar Years

Calendar Year	Population (1) (Expressed in thousands)			Personal Income (2) (Expressed in thousands)			Per Capita (3) Personal Income			Pennsylvania percentage above/(below) U.S.
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States		
2004	12,411	292,805	4.24%	\$ 430,261	\$ 10,043,231	4.28%	\$ 34,668	\$ 34,300		1.07%
2005	12,450	295,517	4.21%	447,157	10,605,595	4.22%	35,916	35,888		0.08%
2006	12,511	298,380	4.19%	476,607	11,376,405	4.19%	38,096	38,127		(0.08)%
2007	12,564	301,231	4.17%	501,352	11,990,104	4.18%	39,904	39,804		0.25%
2008	12,612	304,094	4.15%	519,191	12,429,234	4.18%	41,165	40,873		0.71%
2009	12,667	306,772	4.13%	514,729	12,080,223	4.26%	40,636	39,379		3.19%
2010	12,710	309,326	4.11%	529,201	12,417,659	4.26%	41,635	40,144		3.71%
2011	12,741	311,583	4.09%	558,143	13,189,935	4.23%	43,806	42,332		3.48%
2012	12,764	313,874	4.07%	581,772	13,873,161	4.19%	45,577	44,200		3.12%
2013	12,774	316,129	4.04%	590,171	14,151,427	4.17%	46,202	44,765		3.21%

**Sources:** Population data is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce website at <http://www.bea.gov/index.htm>, whose source is the U.S. Bureau of Census' mid-year population estimate. Personal income details can be found in Table 5.

**Notes:**

(1)-Population data is presented as of July 1 of the calendar year. The U.S. Bureau of Census' mid-year population estimate include revisions to the annual population estimate back to the calendar year of the most recent Census (2010 calendar year). Therefore, the totals shown may differ from what was presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2013 fiscal year.

(2)-Personal income data is provided as of the calendar year. Various calendar years differ from the totals presented in the June 30, 2013 CAFR. See Table 5 for details.

(3)-As a result of changes noted in Notes (1) and (2), the Per Capita Personal Income may differ from what was presented in the June 30, 2013 CAFR.

**Commonwealth of Pennsylvania**

**Demographic and Economic**

Table 16

Employment Information

For the Last Ten Calendar Years

(Expressed in thousands)

Calendar Year	Pennsylvania (1)				United States				PA rate percentage above/(below) U.S. Rate
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	
2004	6,197	5,860	337	5.4	147,401	139,252	8,149	5.5	(1.82)%
2005	6,270	5,958	312	5.0	149,320	141,730	7,591	5.1	(1.96)%
2006	6,308	6,021	287	4.5	151,428	144,427	7,001	4.6	(2.17)%
2007	6,330	6,054	276	4.4	153,124	146,047	7,078	4.6	(4.35)%
2008	6,450	6,105	345	5.3	154,287	145,362	8,924	5.8	(8.62)%
2009	6,406	5,898	509	7.9	154,142	139,877	14,265	9.3	(15.05)%
2010	6,392	5,851	541	8.5	153,889	139,064	14,825	9.6	(11.46)%
2011	6,397	5,885	512	8.0	153,617	139,869	13,747	8.9	(10.11)%
2012	6,466	5,954	513	7.9	154,975	142,469	12,506	8.1	(2.47)%
2013	6,460	5,982	478	7.4	155,389	143,929	11,460	7.4	0.00%

**Sources:** Information was obtained from the Center for Workforce Information & Analysis, Pennsylvania Department of Labor and Industry website at [www.paworkstats.state.pa.us/](http://www.paworkstats.state.pa.us/).

**Notes:**

(1)-Various calendar years may differ from the totals presented in the same table in the June 30, 2013 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

## Commonwealth of Pennsylvania

## Operating Information

Table 17

Commonwealth Employees by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Direction and supportive services</b>										
Legislative.....	3,268	3,336	3,339	3,346	3,327	3,133	2,959	2,844	2,784	2,749
Revenue.....	2,322	2,377	2,385	2,374	2,254	2,058	1,965	1,934	1,883	1,867
Executive Offices.....	1,962	1,990	1,966	2,012	2,004	1,906	1,767	1,715	1,612	1,554
General Services.....	1,255	1,295	1,305	1,251	1,244	1,145	1,115	1,030	993	950
Auditor General.....	736	740	711	730	708	670	606	598	475	475
Treasurer.....	497	534	565	552	492	420	408	396	386	373
Other.....	379	376	327	327	281	274	270	273	268	256
<b>Total direction and supportive services.....</b>	<b>10,419</b>	<b>10,648</b>	<b>10,598</b>	<b>10,592</b>	<b>10,310</b>	<b>9,606</b>	<b>9,090</b>	<b>8,790</b>	<b>8,401</b>	<b>8,224</b>
<b>Protection of persons and property</b>										
Corrections.....	14,826	15,301	15,441	15,722	16,139	16,232	15,740	15,751	15,398	15,177
State Police.....	6,039	6,191	6,272	6,249	6,193	5,989	6,015	5,978	5,938	6,139
Liquor Control Board.....	4,580	4,772	4,704	4,835	5,031	5,082	4,847	4,952	5,007	5,086
Environmental Protection.....	2,831	2,890	2,799	2,793	2,786	2,590	2,609	2,648	2,616	2,522
Judiciary.....	2,102	2,140	2,130	2,136	2,141	2,197	2,154	2,176	2,150	2,171
Transportation.....	1,253	1,251	1,253	1,235	1,185	1,125	1,129	1,194	1,191	1,188
Agriculture.....	968	1,032	1,056	1,187	1,112	995	962	919	952	914
Probation and Parole Board.....	1,001	1,008	967	1,084	1,141	1,114	1,105	1,162	1,199	1,217
Attorney General.....	886	919	935	985	955	897	814	821	810	836
Public Utility Commission.....	469	529	485	519	535	547	506	508	497	492
Military and Veterans Affairs.....	489	529	517	538	529	478	450	468	467	486
Other.....	2,025	2,106	2,088	2,085	2,014	1,955	1,850	1,905	1,839	1,824
<b>Total protection of persons and property.....</b>	<b>37,469</b>	<b>38,668</b>	<b>38,647</b>	<b>39,368</b>	<b>39,761</b>	<b>39,201</b>	<b>38,181</b>	<b>38,482</b>	<b>38,064</b>	<b>38,052</b>
<b>Public education</b>										
Education.....	672	674	665	693	578	544	503	521	514	499
Other.....	18	18	18	18	16	15	15	-	-	-
<b>Total public education.....</b>	<b>690</b>	<b>692</b>	<b>683</b>	<b>711</b>	<b>594</b>	<b>559</b>	<b>518</b>	<b>521</b>	<b>514</b>	<b>499</b>
<b>Health and human services</b>										
Public Welfare.....	19,769	19,655	18,786	19,082	18,399	18,300	17,169	16,995	16,504	16,643
Labor and Industry.....	4,370	4,462	4,277	3,960	4,740	4,887	4,632	4,599	4,140	4,037
Military and Veterans Affairs.....	2,015	2,060	2,095	2,128	1,965	2,033	2,049	2,023	1,924	1,961
Health.....	1,429	1,524	1,465	1,511	1,490	1,384	1,364	1,461	1,331	1,281
Other.....	109	112	107	102	98	193	206	220	252	284
<b>Total health and human services.....</b>	<b>27,692</b>	<b>27,813</b>	<b>26,730</b>	<b>26,783</b>	<b>26,692</b>	<b>26,797</b>	<b>25,420</b>	<b>25,298</b>	<b>24,151</b>	<b>24,206</b>
<b>Economic development</b>										
Labor and Industry.....	911	960	927	911	930	934	912	942	919	897
Community and Economic Development.....	324	336	346	349	352	334	311	302	321	313
<b>Total economic development.....</b>	<b>1,235</b>	<b>1,296</b>	<b>1,273</b>	<b>1,260</b>	<b>1,282</b>	<b>1,268</b>	<b>1,223</b>	<b>1,244</b>	<b>1,240</b>	<b>1,210</b>
<b>Transportation</b>										
Transportation.....	10,578	10,810	10,509	10,770	10,655	10,626	10,486	10,696	10,695	10,609
<b>Total transportation.....</b>	<b>10,578</b>	<b>10,810</b>	<b>10,509</b>	<b>10,770</b>	<b>10,655</b>	<b>10,626</b>	<b>10,486</b>	<b>10,696</b>	<b>10,695</b>	<b>10,609</b>
<b>Recreation and cultural enrichment</b>										
Conservation and Natural Resources.....	2,608	2,639	2,573	2,632	2,493	2,279	2,219	2,335	2,392	2,407
Game Commission.....	734	732	734	725	706	734	735	774	769	797
Fish and Boat Commission.....	492	497	514	508	485	486	486	481	448	433
Historical and Museum Commission.....	444	435	419	399	347	228	213	231	214	222
Other.....	111	114	113	111	92	56	50	51	43	41
<b>Total recreation and cultural enrichment.....</b>	<b>4,389</b>	<b>4,417</b>	<b>4,353</b>	<b>4,375</b>	<b>4,123</b>	<b>3,783</b>	<b>3,703</b>	<b>3,872</b>	<b>3,866</b>	<b>3,900</b>
<b>Total Commonwealth Employees.....</b>	<b>92,472</b>	<b>94,344</b>	<b>92,793</b>	<b>93,859</b>	<b>93,417</b>	<b>91,840</b>	<b>88,621</b>	<b>88,903</b>	<b>86,931</b>	<b>86,700</b>

**Source:** Employees for the Legislature, Judiciary, Auditor General, Treasury and Attorney General were provided by the individual agency. All other agencies fall within the Governor's jurisdiction and were provided by the Office of Administration.

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## Commonwealth of Pennsylvania

## Operating Information

Table 18

Operating Indicators by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2005	2006	2007	2008	2009	2010	2011	2012	2013(5)	2014(5)
<b>Direction and supportive services:</b>										
<b>Executive Offices</b>										
<b>Council on the Arts</b>										
Attendance at supported events (in thousands)	28,000	28,000	30,566	20,700	20,950	15,747	15,800	21,700	15,810	15,820
<b>Office of Inspector General-Welfare Fraud</b>										
Fraud prevention - investigations.....	21,073	22,051	20,582	21,392	25,802	27,645	25,893	25,362	27,916	28,000
Fraud prevention - ineligibility determinations.....	10,898	11,500	10,793	10,762	10,897	12,902	12,420	12,650	14,095	14,000
<b>Protection of persons and property:</b>										
<b>Corrections</b>										
Inmates (1).....	40,965	42,446	44,365	46,028	49,307	51,321	51,638	51,184	51,382	50,666
Inmates enrolled in academic educational programs (1).....	11,680	13,457	14,453	15,017	14,551	13,152	12,064	12,871	11,259	11,120
<b>Agriculture</b>										
Number of food safety inspection reports available online	N/A	N/A	N/A	23,950	44,308	51,632	55,180	61,000	94,500	91,000
<b>Revenue</b>										
Personal Income Tax:										
Total - electronic.....	2,520,663	2,813,228	3,040,325	3,347,123	3,544,248	3,709,651	3,699,817	4,538,565	4,952,705	4,977,000
Total - paper.....	3,288,166	3,994,634	2,076,124	3,239,502	2,842,447	2,137,790	2,299,575	1,678,647	1,316,542	1,323,000
Total personal income tax returns processed.....	5,808,829	6,807,862	5,116,449	6,586,625	6,386,695	5,847,441	5,999,392	6,217,212	6,269,247	6,300,000
<b>State Police</b>										
Traffic citations issued.....	451,160	479,086	506,844	500,820	564,582	567,116	560,063	600,986	566,440	576,000
Background Checks:										
Firearms checks conducted for the purchase of a firearm.....	514,287	512,686	503,013	505,500	681,516	596,879	688,564	849,329	1,202,156	1,220,000
<b>Judiciary</b>										
Caseload (cases filed/reopened/appeals) (1).....	3,790,068	3,783,987	3,816,270	3,768,167	3,884,107	3,825,045	3,761,142	3,614,627	3,514,214	3,498,071
<b>Public education:</b>										
<b>Education</b>										
PreK-12 EDUCATION (BASIC EDUCATION):										
Public school enrollment (preK-12).....	1,828,089	1,830,684	1,810,430	1,797,520	1,800,314	1,780,413	1,781,206	1,765,327	1,764,000	1,764,000
HIGHER EDUCATION:										
Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:										
State System of Higher Education.....	98,657	100,392	102,445	103,356	105,566	109,636	112,030	109,738	107,012	104,588
Community Colleges.....	88,494	88,150	91,161	92,526	98,988	106,270	106,164	103,971	97,981	97,494
State-Related Universities.....	140,697	139,894	144,993	148,272	152,678	156,435	157,939	156,517	160,589	162,313
Non-State Related Universities and Colleges.....	43,106	43,662	48,078	48,607	49,532	888	840	809	806	833
<b>Health and human services:</b>										
<b>Aging and Long Term Living</b>										
Comprehensive PACE/PACENET Program:										
Older Pennsylvanians enrolled (average).....	290,482	306,138	390,207	313,643	312,916	309,329	307,585	298,137	288,645	279,530
Total prescriptions per year.....	12,794,090	13,253,256	13,025,489	11,173,934	11,605,980	10,773,967	10,341,180	10,288,430	9,739,080	9,423,330
<b>Health</b>										
Vital events (births, deaths, fetal deaths) registered.....	273,432	274,105	275,261	280,928	273,381	268,788	270,194	273,522	272,054	269,500
Total number of encounters by State Health Care Centers.....	N/A	375,240	511,736	550,083	555,584	523,874	561,140	440,860	589,167	618,700
<b>Public Welfare</b>										
<b>MEDICAL ASSISTANCE</b>										
Persons participating in Medical Assistance (monthly average).....	1,747,615	1,833,760	1,883,235	1,907,396	1,972,559	2,072,461	2,135,477	2,225,011	2,123,710	2,174,610
Persons receiving cash assistance (monthly average).....	278,474	278,496	250,687	225,846	221,744	240,650	248,173	248,298	180,235	166,730
Children participating in subsidized child care (unduplicated).....	195,211	200,650	212,112	239,550	234,899	251,347	257,735	220,530	207,571	206,150
Total persons provided mental health services (2).....	398,590	418,749	517,440	525,991	525,136	530,387	649,375	655,577	720,079	731,540
Persons receiving Intellectual Disability services during fiscal year (3).....	72,538	45,414	50,139	51,375	53,284	53,399	53,455	53,569	53,613	54,690
<b>Economic development:</b>										
<b>Community and Economic Development</b>										
Businesses assisted.....	19,781	16,215	18,454	15,805	17,852	18,439	21,004	23,804	24,351	25,037
Persons receiving Customized Job Training.....	N/A	N/A	N/A	N/A	N/A	45,376	51,334	39,394	41,776	42,612
Persons participating in Community Services Block Grant.....	339,564	339,564	339,564	348,829	325,322	387,055	444,529	398,558	315,000	250,250

Commonwealth of Pennsylvania

Operating Information

Table 18

Operating Indicators by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2005	2006	2007	2008	2009	2010	2011	2012	2013(5)	2014(5)
<b>Labor and Industry</b>										
Total public health and safety inspections performed.....	117,056	82,123	80,408	75,223	76,253	76,136	77,142	87,913	81,718	82,800
Vocational Rehabilitation-Eligible participants with active plans.....	N/A	N/A	N/A	N/A	41,316	43,644	48,652	45,471	52,354	52,000
<b>Transportation:</b>										
<b>Transportation</b>										
Miles of State maintained highways.....	39,890	39,890	39,843	39,872	39,861	39,845	39,793	39,797	39,792	39,760
Passengers carried by State-assisted operators (millions annually).....	310	401	390	427	434	423	432	441	435	442
Safety and Emissions inspections.....	17,100,000	17,388,858	17,470,970	17,470,125	17,972,890	17,720,432	17,707,480	17,441,664	17,317,953	17,800,000
Registrations:										
Registrations-Total New and Renewed.....	10,017,000	9,864,461	9,708,974	9,724,462	9,550,413	9,389,974	9,206,015	9,369,992	10,061,588	10,100,000
Licensed drivers-Total New and Renewed.....	2,377,057	2,345,311	2,274,866	2,432,976	2,402,935	2,407,963	2,364,145	2,449,267	2,425,954	2,410,000
<b>Recreation and cultural enrichment:</b>										
<b>Conservation and Natural Resources</b>										
State park attendance (visitor days per calendar year).....	35,095,476	36,295,873	35,800,000	33,200,000	37,000,000	38,400,000	37,600,000	37,600,000	36,400,000	36,900,000
<b>Fish and Boat Commission</b>										
Fishing licenses sold.....	834,877	843,302	864,416	905,806	839,172	883,932	810,050	876,233	852,944	870,000
<b>Game Commission</b>										
Hunting licenses sold.....	1,007,613	964,158	945,892	924,448	926,892	946,497	927,527	931,060	925,000	925,000
<b>Historical and Museum Commission</b>										
Records maintained by the State Records Center (in thousands) (4).....	726,747	753,354	791,553	812,175	811,000	811,000	239,540	239,772	239,002	240,000
Annual visits to commission historical sites and museums (in thousands).....	1,477	1,516	1,420	1,450	1,425	1,425	1,283	1,045	1,060	1,070

**Sources:** Governor's Office of the Budget, Comptroller Offices, various agencies

**Notes:**

(1)-Amounts are presented as of December 31.

(2)-Beginning with the 2005 fiscal year, this amount was revised to include individuals receiving services from community mental health funds, Medical Assistance expenditures, and BHSI funds.

(3)-Beginning with the 2005 fiscal year, this amount was revised to remove those receiving Early Intervention services.

(4)-Beginning with the 2011 fiscal year, this amount was revised to reflect the number of boxes maintained. Previous years reflected the actual number of records.

(5)-For the 2014 fiscal year, a majority of the indicators presented are estimates. For the 2013 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2013 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2013 CAFR.

Commonwealth of Pennsylvania

Operating Information

Table 19

Capital Asset Information by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>GOVERNMENTAL ACTIVITIES</b>										
<b>Direction and Supportive Services</b>										
<b>Department of General Services</b>										
Number of buildings (1).....	36	85	85	87	85	119	116	116	116	115
Total pieces of machinery and equipment.....	137	137	139	133	148	394	139	155	134	141
Capital and Agency projects in design and/or construction.....	500	409	440	385	425	638	725	764	799	767
Vehicles in fleet.....	16,544	16,337	16,384	16,307	16,307	15,808	16,353	15,821	14,704	14,542
<b>Protection of persons and property</b>										
<b>Department of Corrections</b>										
State Correctional Institutions (2).....	27	26	26	27	27	27	27	27	26	26
<b>State Police</b>										
Patrol vehicles.....	2,282	2,316	2,173	2,189	2,189	2,182	2,182	2,182	2,182	2,182
Police stations and/or troop headquarters (2).....	23	23	23	23	24	25	25	25	26	26
<b>Department of Military and Veterans Affairs</b>										
Number of National Guard readiness centers.....	117	117	117	117	117	100	100	99	99	85
<b>Public education</b>										
<b>State System of Higher Education (SSHE)-Component Unit (3)</b>										
Number of SSHE universities using Commonwealth owned buildings and land.....	14	14	14	14	14	14	14	14	14	14
<b>Health and human services</b>										
<b>Department of Public Welfare</b>										
Total number of hospital or treatment center complexes (1)(2).....	21	19	19	19	18	19	17	17	17	17
<b>Transportation</b>										
<b>Department of Transportation</b>										
Total pieces of equipment .....	7,070	7,495	7,923	7,316	7,969	7,707	7,722	7,792	8,128	8,242
Total lane miles of highways (state or locally maintained).....	116,055	116,100	116,716	116,998	117,187	117,385	117,499	117,588	117,681	117,760
<b>Recreational and cultural enrichment</b>										
<b>Department of Conservation and Natural Resources</b>										
Acres of land in state parks and forests (in millions).....	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.5	2.5
<b>Game Commission</b>										
Acres of game lands (in millions).....	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.50	1.50
<b>Fish Commission</b>										
Public boat launches.....	N/A	178	153	153	271	271	271	271	271	271
Total number of fish hatcheries.....	15	15	15	15	15	15	15	15	15	15
<b>Historical and Museum Commission</b>										
Museums and historic sites.....	26	25	25	25	25	23	23	23	23	23
<b>Economic Development</b>										
<b>Department of Labor and Industry</b>										
Square footage of rehabilitation centers owned by the Commonwealth.....	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	469,065	469,065

**Sources:** Governor's Office of the Budget, Comptroller Offices and various agencies.

**Notes:**

- (1)-Beginning with the 2006 fiscal year, the control of the Harrisburg State Hospital was transferred from the Department of Public Welfare (reducing the reported number of hospital complexes) to the Department of General Services (increasing the reported number of buildings). Also, beginning with the 2010 fiscal year this amount includes buildings that were leased to non-Primary Government entities but owned by the Commonwealth. These were not reported in the totals for the other fiscal years.
- (2)-State Correctional Institutions, police station/troop headquarters and hospital/treatment center complexes include nondepreciable capital assets (e.g. land) and depreciable assets (e.g. machinery and equipment, buildings, improvements, etc.).
- (3)-The State System of Higher Education (SSHE) is a discretely presented component unit. However, each of its universities uses land, buildings, and improvements which were purchased by the Commonwealth and are still reported as governmental activities capital assets in the Commonwealth's Statement of Net Position. See Note A in the Notes to the Financial Statements for a detailed description of this relationship.